HUNGARY

ACT ON THE CAPITAL MARKET

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Act CXX of 2001

on the Capital Market

In order to promote the development and to improve the competitive edge of the capital market on the international stage, to ensure that transparency is achieved, to improve regulations pertaining to actors of capital markets, to improve the security of investments and the protection of investors, and finally, to improve the efficiency of the supervision of capital markets, the Parliament has adopted the following act:

PART ONE

INTRODUCTORY PROVISIONS

Chapter I

SCOPE OF THE ACT

Section 1.

Unless provided by treaty or international convention to the contrary, this Act shall apply

a) to securities issued in the Republic of Hungary as part of a series as well as to the marketing of such securities by a Hungarian issuer in a foreign country and the listing of securities issued as part of a series on a stock exchange operating in the territory of the Republic of Hungary;

b) to the acquisition of interest in the capital of any public limited liability company established or registered in the Republic of Hungary;

c) to investment services and activities auxiliary to investment services, and commodity exchange services provided in the Republic of Hungary;

d) to investment services and activities auxiliary to investment services, commodity exchange services and investment fund management services provided by the foreign branch of an investment service provider, commodities broker or investment fund manager that is established or registered in the Republic of Hungary;

e) to any cross-border services provided by an investment service provider or a commodities broker that is established or registered in the Republic of Hungary;

f) to investment fund management activities performed in the Republic of Hungary;

g) to any cross-border services provided by an investment fund manager that is established or registered in the Republic of Hungary;

h) to exchange market operations performed in the Republic of Hungary;

i) to the activities of clearing houses and central depositories operating in the Republic of Hungary;

j) to any cross-border services provided by an organization that is established or registered in the Republic of Hungary and is engaged in providing clearing house and exchange market services;

k) to the Investor Protection Fund, and to the insurance facilities it provides;

l) to supervisory activities of Hungarian authorities as laid down in this Act;

m) the supervision of the outsourcing service provider under the provisions of this Act.

n) to companies and mixed-activity holding companies - other than investment enterprises - with a close link to investment enterprises or financial holding companies subject to supervision on a consolidated basis.

o) enterprises and mixed financial holding companies that have close links with investment firms and mixed financial holding companies, other than financial institutions, which are subject to supplementary supervision.
Section 2.

This Act shall not apply
a) to the marketing of cooperative shares, checks, bills of exchange, compensation notes, warehouse warrants, and the private offering of government securities;
b) to the investment operations of investors, other than investment service providers, performed exclusively on their own account and involving only their own assets;
c) to investment services and activities auxiliary to investment services if they involve only a parent company and its subsidiary, or if provided by a parent company to its subsidiaries, unless performed by an investment service provider;
d) to sales transactions, without the use of an investment service provider, if they pertain only to the own securities of an issuer and if concluded on the issuer's own account involving only his own assets, and if it does not fall within the scope of marketing.
e) to financial holding companies whose subsidiaries include at least one credit institution.

Section 3.

(1) As regards the NBH, the Treasury and ÁKK Rt., Sections 91-97, Sections 106 and 107, Section 172, Sections 175-181, Subsection (1) of Section 199, Subsection (2) of Section 364, and Sections 399-406 shall not apply.

(2) Sections 98, 106, 107, 179, 355, 356 and 357 shall not apply to investment enterprises and commodities brokers established as branch offices, Section 355 and the part governing personnel criteria in Schedule No. 11 shall not apply to investment fund managers established as branch offices, Sections 307-310, 355, 356 and 357 shall not apply to exchanges established as branch offices, and Section 342, 355, 356 and 357 shall not apply to clearing houses established as branch offices.

Chapter II

INTERPRETATIVE PROVISIONS

Section 4.

The abbreviations of legal regulations referred to in this Act are contained in Schedule No. 1.

Section 5.

(1) For the purposes of this Act and other legal regulations implemented under its authorization
1) 'progressive issue' shall mean a method of offering debt securities to the public where the underlying securities of the same maturity are sold within a time frame designated by the issuer;
2) 'allocation' shall mean a procedure conducted by an issuer or a broker/dealer based on predetermined allotment principles after closing the subscription procedure or the auction in the event that the number of shares applied for or the number of purchase offers exceed the number available;
3) 'parent company' shall mean any company that effectively exercises a dominant influence over another company;
4) 'auction' shall mean a method of trading where the issuer provides an opportunity - subject to specific conditions - to prospective buyers to make an offer, and where the purchase offers received are assessed under certain criteria;
5) 'government securities' shall mean debt securities issued by the Hungarian or a foreign government or by the NBH;
6) 'commodity' shall mean any article of commerce, movable and tangible things produced or used for sale or barter, including natural resources that can be utilized in the same way as things, exclusive of financial instruments;

7) 'investment fund' shall mean a legal entity that issues investment certificates, public or private, operated by an investment fund manager by investing the capital collected from the investors on behalf and for the benefit of the investors;

8) 'investment fund management activities' shall mean the operation of an investment fund by the fund manager in accordance with predetermined investment principles, and trading the individual components in the investment fund's portfolio (investment instruments or real estate) by decision of the fund manager as consistent with the said predetermined investment principles;

9) 'investment fund manager' shall mean a corporation or a branch office licensed to engage in investment fund management activities;

10) 'custodian services for investment funds' shall mean the financial service defined in Paragraph i) of Subsection (1) of Section 3 of CIFE, where the custodian - functioning as a depositary by order of the investment fund manager - undertakes the safe-keeping and administration of the investment fund's securities, and it also maintains the investment fund's bank accounts, including the account used for collecting the fund's capital and securities accounts, and it performs services including the sale and repurchase of investment certificates, payment of yields, technical services for determining the net value of assets, and it controls and supervises the operations of fund managers;

11) 'investment fund custodian' shall mean a credit institution providing custodian services for an investment fund;

12) 'investment fund's own capital' shall mean the sum of the face value of investment certificates multiplied by their quantity; the amount of own funds may not fall below the total net asset value of the investment fund;

13) 'investment loan' shall mean a short-term loan granted for the purchase of securities if the lender participates in the transaction;

14) 'investment certificates' shall mean transferable securities issued as part of a series in the name of an investment fund (for it and on its behalf) - subject to the form and content requirements laid down in this Act - that carry financial and certain other rights;

15) 'continuous issue of investment certificates' shall mean an operation when the investment certificates of an open-ended investment fund are continuously offered and redeemed in the name of the investment fund;

16) 'investment consultancy' shall mean an informed assessment of investment instruments (Section 82) and the capital market, including analysis, provided for consideration, to enable the client to make a decision to invest and risk his own money and/or other assets, or those of others, for the purpose of making a profit subject to developments in the capital market. Any disclosure of facts, data, circumstances, studies, reports, analyses, and advertisements to the public, and any information provided by sales representatives to their clients shall not be deemed investment consultancy;

17) 'investment service provider' shall mean an investment firm or a credit institution that is engaged in investment services and in activities auxiliary to investment services, but not including clearing houses;

18) 'investor' shall mean any person who has entered into a contract with an investment service provider, and investment fund manager, commodities broker or another investor to invest and risk his own money and/or other assets, or that of others, for the purpose of making a profit subject to developments in the capital market or the stock exchange;

19) 'qualifying holding' shall mean a direct or indirect holding of a person in a company, or a relationship between a person and a company, by virtue of which the person

   a) controls ten per cent or more of the capital or of the voting rights on the whole, or

   b) has powers to appoint or remove twenty per cent or more of the members of the company's decision-making, management, supervisory and other bodies, or

   c) has powers to exercise a significant influence over the management of the company as stipulated in its memorandum and articles of association or in contract;
20) 'financial intermediation' shall mean the activities of an investment service provider and commodities broker in his own name and on behalf of a client;

21) 'swap' shall have the same meaning as defined in the Accounting Act;

22) 'delta' shall mean the index indicating any change in an option price as a proportion of any change in the unit price (exchange rate) of the instrument, commodity or currency underlying the option;

23) 'dematerialized securities' shall mean an electronic instrument identifiably containing all material information of securities, which are recorded, transmitted and registered electronically as defined in this Act and in specific other legislation;

24) 'resident' shall mean
   a) a natural person who has a valid personal identification document (personal identity card) issued by the competent Hungarian authority or, for persons under the age of fourteen, an official certificate that contains the personal identification number, whether or not one has actually been issued (hereinafter jointly referred to as 'personal identification document'),
   b) an enterprise or organization if domiciled in Hungary, including the independent enterprises of foreign nationals in Hungary (private entrepreneurs, including sole proprietorships, and self-employed individuals),
   c) the owner, executive officer, supervisory board member and employee of the enterprise or organization specified in Paragraph b), acting in their official capacity, in respect of their legal transactions and the other actions performed in the name and on behalf of the enterprise or organization if, pursuant thereto, the enterprise or organization acquires a right or incurs an obligation, shall qualify as a resident even if otherwise construed as a nonresident,
   d) the Hungarian branch office of a foreign-registered company, not including free zone companies and the companies referred to in Point 28 of Section 4 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax, as amended,
   e) representative offices in foreign countries;

25) 'non-resident' shall mean
   a) a natural person who does not have a valid personal identification document issued by the competent Hungarian authority and is not entitled to hold one,
   b) an enterprise or organization, regardless of its legal form, if domiciled abroad, and the branch offices of resident enterprises and organizations,
   c) the representative office of a non-resident in Hungary,
   d) free zone companies,
   e) the Hungarian branch office of a foreign-registered enterprise, if such a branch office has been established or is operating in a free zone, and
   f) the companies referred to in Point 28 of Section 4 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax, as amended;

26) 'endowment capital' shall mean the capital provided permanently and without restrictions or encumbrances for the foundation and operation of a branch office;

27) 'specific risk' shall mean the risk of a price change related to any specific attributes of the underlying securities or derivative instruments;

28) 'recognized country' shall mean Hungary, and any other country that meets the following conditions:
   a) has sufficient background to ensure investment services to be provided prudently, and it is adequately supervised,
   b) has sufficient legal background to prevent money laundering operations,
   c) has sufficient regulations concerning data protection, and
   d) the Commission has a cooperation agreement with the country's competent supervisory authority;

29) 'recognized (regulated) market' shall mean the exchange market or another regulated market of a recognized country for the sale and purchase of securities under fixed rules and controlled by supply and demand, and which satisfies the following criteria:
   a) membership of or access to such market is subject to regulations and market standards approved by the competent supervisory authority,
b) which operates regularly at specific hours,
c) the activities and transactions of all traders are subject to certain minimum requirements (capital requirement, deposit requirements, etc.),
d) publication of prices and quantities is mandatory (at the start, during and at the end of each day's trading the prices and the volume dealt of each instrument must be published),
e) the minimum requirements for the admission of financial instruments are defined,
f) issuers of financial instruments trading on the market shall publish all information which may affect the buying and selling price or any form of price variations of the financial instruments (transparency),
g) all traders are required to disclose the particulars of their transactions to the competent supervisory authority, and
h) 30) 'dominant influence' shall have the same meaning as defined in the CIFE;
31) 'controlled company' shall have the same meaning as defined in the Companies Act;
32) 'settlement system' shall mean a designated scheme comprising positions in instruments and securities transactions under uniform and common rules agreed by the clearing members;
33) 'clearing house' shall mean a specialized credit institution providing services incidental to the settlement and performance of money and capital market deals transacted in a stock exchange or another similar market;
34) 'security' shall mean a financial asset that is treated as a security under the law of the country where it is issued;
35) 'securities code' shall mean the ISIN code assigned for the identification of securities of the same type;
36) 'securities series' shall mean the total quantity of securities of identical type representing identical rights issued at a fixed date, or the total quantity of securities issued at different dates but representing identical rights at a specific date in the future;
37) 'securities lending and securities borrowing' shall mean the conveyance of securities where the lender transfers securities to the borrower subject to a commitment that the borrower will return equivalent securities in terms of quantity, face value, type and series at some future date stipulated by contract or when requested to do so by the transferor to the transferor or to a third party designated by the transferor;
38) 'securities safe-keeping' shall mean when securities are entrusted to an investment service provider for administration and release as instructed by the owner of the securities;
39) 'safe custody account' shall mean an account for the safe-keeping of securities, including the collection of interests, dividends, yields or installments and other related services;
40) 'securities account' shall mean a set of records on dematerialized securities and other related rights maintained on behalf of the owner of the securities;
41) 'supervisory authority' shall mean the foreign authorities supervising the activities of foreign investment service providers, commodities brokers, investment fund managers, exchange markets and clearing houses and other similar bodies providing clearing or settlement services;
42) 'dividend' shall mean a share of the capital increment, which, according to the management regulations, the investment fund manager is obliged to pay on the investment units;
43) 'marketing' shall mean the initial action of making available a security for establishing ownership;
44) 'broker/dealer' distributor shall mean an investment service provider participating in the marketing of securities;
45) 'head office' shall mean the place where the central decision making occurs in connection with business operations;
46) 'independent financial expert' shall mean an auditor, a person licensed to provide investment counseling services or a trader who was not contracted within the three-year period preceding the publication of the purchase offer neither by the bidder, the target company affected by the purchase offer nor by a person holding any influencing share in the bidder or in the target company;
47) 'collateral account' shall mean an account containing money and/or securities and managed by the clearing house in security for the settlement of transactions conducted on the capital market;
48) 'third country' shall mean any country outside the European Union;
49) 'average residual maturity' shall mean, in the case of fixed-rate instruments, the weighted average of the period remaining until maturity by the ratio of the price of the bond discounted by the yield calculated for the entire maturity period. In the case of variable-rate instruments the average residual maturity shall be the same as the duration remaining until the next payment of interest;
50) 'debt securities' shall mean all securities in which the issuer (debtor) acknowledges that a certain amount of money has been placed at its disposal and that it commits itself to repaying the amount of the principal (loan) as well as, in the case of interest-bearing securities, the agreed interest or other returns calculated as stipulated or its other yields (hereinafter jointly referred to as 'interest') as well as to performing any other predetermined services, when applicable, to the holder of the securities (the creditor) on the date and in the manner stipulated;
51) 'long position' shall mean all positions where any increase in the price of the underlying instrument results in future gains in terms of value;
52) 'index-driven investment fund' shall mean an investment fund using an investment policy to follow the index of a recognized (regulated) market, or another index offered to potential investors and approved by the Commission;
53) 'institutional investor' shall mean
   a) credit institutions, investment enterprises, investment funds, investment fund managers, venture capital companies, venture capital funds, insurance institutions, the Voluntary Mutual Insurance Fund, private pension funds, the National Health Insurance Fund, and the National Pension Insurance Administration,
   b) all non-residents who can be regarded as such under their own laws;
54) 'associated enterprise' shall mean a company that engages, exclusively or primarily, in activities auxiliary to the business profile of one or more investment firms, organizations providing clearing or settlement services or investment fund managers; such auxiliary activities shall, for example, include real estate management, data processing, transport of money, and security and communication services;
55) 'subscription' shall mean an unconditional and irrevocable statement made by a prospective buyer wishing to invest in a particular security, which constitutes his acceptance of the offer and his commitment to provide the consideration therefor;
56) 'subscription guarantee' shall mean
   a) a commitment to subscribe or to purchase securities on one's own account or
   b) a commitment to subscribe or to purchase securities in a quantity as agreed to in a contract in order to avoid the failure of subscription or sale;
57) 'subscribed capital' shall have the same meaning as defined in the Accounting Act, including endowment capital;
58) 'affiliated company' shall mean the company’s parent company, the company’s subsidiary, a subsidiary of the company’s parent company, a shareholder with a qualifying holding in the company or any other company in which the company or the owner, supervisory board member, managing director of the company or one of their close relatives has a qualifying holding;
59) 'trading activities' shall mean the buying, selling and exchange of financial instruments and commodities performed by investment service providers and commodities brokers on their own account;
60) 'issue program' shall mean an operation in which an issuer publicly issues a series of debt securities or investment certificates of a close-ended investment fund at certain intervals, the basic conditions of which are announced by the issuer or the fund manager when the program is initiated, and where the issuer or the fund manager specifies the individual characteristics of each issue;
61) 'issuer' shall mean legal persons and unincorporated business associations which are committed to perform the obligations embodied in securities in their own names;
62) 'clearing' shall mean the procedure that includes the processing, matching and confirmation of payment orders and orders for the settlement of money and capital market transactions and transfers - not including the clearing transactions governed under the CIFE, the creation of the underlying final position of settlement prior to actual performance (gross or net);
63) 'clearing member' shall mean a person who has a direct contractual relationship with the settlement system;
64) 'exposure' shall mean exposures incurred by individual clients or a group of connected clients, such as
   a) providing an investment loan to a client or to a person from a group of connected clients,
   b) granting deferred financial settlement to a client or a person from a group of connected clients,
   c) purchasing and/or keeping debt securities issued by a client or by a person from a group of connected clients,
   d) acquiring and/or keeping a share in the company of a client or in any company controlled by a group of connected clients,
   e) any position that is related to securities issued by a client or by a person from a group of connected clients,
   f) collaterized securities issued by a client or by a person from a group of connected clients, which are placed with an investment service provider,
   g) securities lending,
   h) any other receivables due from clients and persons from groups of connected clients, other than
      1) the items deducted by the investment service provider when determining the solvency margin;
      2) claims which are due within a 48-hour period following payment in connection with transactions in foreign currencies;
      3) in the case of buying and/or selling securities, claims which are due within a five-day period following delivery of the securities;
   i) exposure to a single client or a person from a group of connected clients in connection with trading and financial intermediation,
   j) a pledge made to a client or a person from a group of connected clients regarding portfolio earnings and retaining capital,
   k) contingent liabilities and commitments toward clients or persons from groups of connected clients other than the exposures specified under Paragraphs e) and h);
65) 'consolidated accounts' shall have the same meaning as defined in the Accounting Act;
66) 'collective investment management' shall mean the management of collective investment portfolio;
67) 'collective investment instruments' shall mean
   a) investment certificates, and
   b) bearer or registered instruments underlying participation in a foreign institution whose objective - as stipulated in its articles of association - is to invest in securities and other instruments and which operate on the principle of risk spreading;
68) 'collective investment trust' shall mean when the capital provided by several investors under identical terms are managed on the same account and invested as a single unit on behalf of the investors subject to predetermined uniform rights. The objective of collective investment trust is to provide portfolio management services to its investors, or that investors - being members of the trust - indirectly use investment management services;
69) 'close relative' shall mean the persons defined in Paragraph b) of Section 685 of the Civil Code;
70) 'central register of securities' shall mean a register maintained by the central depository containing the particulars of securities issued domestically in a retrievable set of records;
71) 'central securities account' shall mean a register maintained by the central depository containing records of dematerialized securities broken down by series;
72) 'indirect holding and indirect control' shall mean when shares in the capital or the voting rights of a company are controlled through the shares or voting rights held by another company in that company (hereinafter referred to as 'intermediary company'). The extent of indirect holding and indirect control shall be determined by multiplying the share or voting right held in the intermediary company by the share or voting right - whichever is greater - held by the intermediary company in the target company. If the share or voting right in the intermediary company is higher than fifty per cent, it shall be treated as a whole;
73) 'foreign-registered investment firm' shall mean a foreign-registered enterprise that is licensed under the laws of the country where established to engage in activities which are compatible with the investment services and activities auxiliary to investment services defined in Section 81;

74) 'subsidiary' shall be any company over which a parent company effectively exercises a dominant influence. All subsidiaries of subsidiary companies shall be considered subsidiaries of the parent company.

75) 'liquid assets' shall mean cash, repo operation with a credit institution for government securities that can be terminated on demand and without restrictions, transferable government securities that can be converted to cash on demand and without restrictions, and any bank deposit that can be terminated on demand and without restrictions;

76) 'secondary security' shall mean a transferable security issued as part of a series by a custodian to the owner (ultimate beneficiary) of the secondary security, by which to exercise control over the principal security or the rights afforded by the securities;

77) 'net asset value' shall mean the value of the assets in the portfolio of the investment fund - including the receivables from lending arrangements less the total of liabilities charged to the portfolio, including accrued expenses and deferred income;

78) 'open-ended investment fund' shall mean an investment fund engaged in the trading of redeemable investment certificates on a regular basis;

79) 'public announcement' shall mean an announcement published for offering securities to any investors, without being subscribed or placed privately;

80) 'public offering' shall mean when securities are offered to any investors without any pre-selection process, and are not subscribed or placed privately;

81) 'open position' shall mean the aggregate value of transactions that are concluded in the course of investment service activities, activities auxiliary to investment services or commodity exchange services but are not completely performed by either contracting party or involve a surety liability up to a deadline;

82) 'open delivery' shall mean a transaction of transferable securities where the delivery of the securities and the remittance (transfer) of payment is accomplished at different times;

83) 'money-market instruments' shall mean any instrument held as a money claim that is traded on the money market;

84) 'financial instruments' shall mean investment instruments and foreign exchange;

85) 'portfolio' shall mean the collection of instruments entrusted to an institution that offers portfolio management, or the collection of instruments comprising various investments selected by those managing the portfolio;

86) 'portfolio management' shall mean an activity where an investor's assets are entrusted to an institution that offers portfolio management (credit institution, investment enterprise, investment fund manager) for the purpose of investing such assets subject to specific and unique conditions, by mandate of the investor in investment instruments, and to manage such investments on behalf of the investor, and where the risks related to such investment instruments and the yields produced by them (gains and losses) shall be borne by the investor;

87) 'position netting' shall mean the conversion of a spot foreign exchange or securities transaction or a derivative transaction into repo or reverse repo, or the conversion of liabilities and receivables from securities lending and/or borrowing, from any other arrangement concerning collateral security or some other financial transaction as a single net liability or receivable by any offsetting method recognized in the market of the financial instrument in question, executed under agreement by the parties in the event of non-performance of the contract or upon the occurrence of any event stipulated by the parties serving grounds for termination, in consequence of which the liability or receivable shall represent only the resulting net amount;

88) 'repo and reverse repo transaction' shall mean any agreement for the conveyance of securities while the seller simultaneously obtains the right and obligation to repurchase it at a specific price on a future date or on demand, regardless of whether the buyer acquires ownership of the securities in question during the term of the transaction (delivered repo), or does not acquire ownership and may not dispose over the
securities for they are deposited as collateral for the buyer for the term of the transaction (collaterized repo). Collaterized repo may be transacted with credit institutions only. Parties may agree that the securities constituting the subject matter of the transaction and that are pledged in collateral, can be exchanged for other securities. Such transaction shall be regarded as a repo on the part of the seller and a reverse repo on the part of the buyer of the securities. During the maturity period of collaterized repo, unless agreed by the parties to the contrary, the seller shall be entitled to exercise the rights attached to the securities and ownership of the securities shall be conveyed to the buyer at the end of the maturity period if the seller fails to pay the repurchase price;

89) 'short position' shall mean all positions where any decrease in the price of the underlying instrument results in future gains in terms of value;

90) 'securities issued as part of a series' shall mean, unless otherwise stipulated by law, securities representing the rights and obligations arising from the underlying relationship divided into a number of identical parts (face value) of equal value;

91) 'solvency margin' shall mean a supplementary reserve created from the investment firm's own funds as defined by accounting regulations, and other funds, which can be mobilized to settle the liabilities of the investment firm without delay and without having to obtain the consent of third party;

92) 'derivative instrument' shall mean an instrument whose value depends on the value of the underlying investment instrument, foreign exchange, commodity or reference rate (base product) and which may itself be traded;

93) 'shares giving a right to participate in company capital' shall mean all certificates carrying voting rights, right to the company's profits and certain other rights in exchange for a specific amount of money or in exchange for in-kind assets whose value is expressed as a specific sum of money;

94) 'settlement' shall mean an act to eliminate an existing balance of payments (position) between clearing members or, in the context of transactions concluded under commitment in connection with stock exchange transactions, between a clearing member and an institution offering clearing house services; settlement also refers to the transfer (delivery) of assets to discharge existing claims between clearing members;

95) 'exchange market' shall mean a place of business where exchange-traded instruments are bought and sold under fixed rules to improve the efficiency of the movement and evaluation of capital, to spreading the risks related to prices and other factors, and promoting the open development of prices;

96) 'exchange information' shall mean the offers made by exchange dealers on exchange-traded instruments and sorted by the trading system, also information related to prices and rates on completed transactions and reference indices calculated and published by the exchange management;

97) 'listed securities' shall mean securities admitted to the official stock exchange listing;

98) 'exchange dealer' shall mean a person licensed to engage in trading in an exchange market;

99) 'exchange-traded instrument' shall mean financial instruments and commodities traded on the exchange market;

100) 'client' shall mean a person who engages in any of the services governed under this Act;

101) 'group of connected clients' shall have the same meaning as defined in the CIFE;

102) 'client account' shall mean an account operated on behalf of a client, serving exclusively for carrying out settlements connected with investment services and commodity exchange services, and payments based on the liabilities embodied in securities;

103) 'agent' shall mean

a) an intermediary providing financial intermediation and trading services for, on behalf of, on the responsibility of, and at the risk of, an investment service provider or commodities broker under an agency contract, and handles the client's money and other instruments in the course of providing such services;

b) a person engaged in activities to assist the financial intermediation and trading activities of investment service providers and commodities brokers;

104) 'gainful (for-profit) activity' shall mean economic activities performed on a regular basis for compensation for the purpose of profit or enrichment;
105) 'enterprise' shall mean a legal entity or unincorporated business association, branch office or an individual entrepreneur engaged in for-profit business activities. When in doubt, it is to be presumed for such operating as an enterprise;

106) 'executive employee' shall mean
a) the executive officers and supervisory board members of an enterprise,
b) in the case of branch offices, the person appointed by the foreign-registered company to lead the branch office, and his deputy, and
c) any person so designated in the company's memorandum of association, deed of foundation, articles of association, or organizational and operational regulations;

107) 'close-ended investment fund' shall mean an investment fund engaged in the issuing and trading of non-redeemable investment certificates with the exception of maturity.

108) 'continuous issue' shall mean a method of offering the debt securities and investment certificates of an open-ended investment fund sold over a sixty-day period, where the term of maturity of the securities begins on the day of sale;

109) 'approved instruments' shall mean the instruments admitted for trading on the exchange market under the rules laid down in its bylaws and under equal conditions;

110) 'outsourcing' means when an investment service provider or a commodities broker does not itself perform, investment services and activities auxiliary to investment services, commodity exchange services, or the mandatory activities prescribed by law, which include the management, processing and storage of data, but rather entrusts a separate, organizationally independent person or an unincorporated business association with performing these activities on a continuous or regular basis under an exclusive contract.

111) 'financial holding company' shall have the same meaning as defined in the CIFE;

112) 'participation' shall have the same meaning as defined in the CIFE;

113) 'close link' shall have the same meaning as defined in the CIFE;

114) 'mixed-activity holding company' shall mean a parent company other than a credit institution, investment firm, a financial holding company or a mixed financial holding company, the subsidiaries of which include at least one investment firm;

115) 'Zone A country' shall have the same meaning as defined in the CIFE;

116) 'investment consultant' shall mean a person providing investment advise at one of the entities referred to in Paragraph f) of Subsection (2) of Section 81:

117) 'sales representative' shall mean a natural person engaged in providing information to clients in connection with investment instruments and commodities, and with investment services, auxiliary investment services and commodity exchange services, acting upon the client’s instructions under contract;

118) 'business representative' shall mean a natural person engaged in transacting business on a recognized (regulated) market in the name of a person engaged in financial intermediation or trading activities.

119) The terms European Union and Member States of the European Union shall be understood as the European Economic Area and Member States of the European Economic Area.

120) 'regulated entity' shall mean a credit institution, an investment firm or an insurance company;

121) 'financial sector' shall mean the banking sector, the investment services sector, the insurance services sector, and mixed financial holding companies;

122) 'banking sector' shall mean a sector composed of credit institutions, financial institutions, and associated companies;

123) 'investment services sector' shall mean a sector composed of investment firms;

124) 'insurance services sector' shall mean a sector composed of insurance companies, reinsurance companies, and insurance holding companies;

125) 'mixed financial holding company' shall mean a parent company, other than a regulated entity, which together with its subsidiaries, at least one of which is a regulated entity which has its head office in the European Union, and other entities, constitutes a financial conglomerate;
126) 'group' shall mean a group of companies which consists of a parent company, its subsidiaries and the entities in which the parent company or its subsidiaries exercise dominant influence or hold a participating share;

127) 'competent authorities concerned' shall mean:
   a) the national authorities of the Member States which are empowered to supervise regulated entities in a financial conglomerate; or
   b) the coordinator appointed in accordance with Section 18l/S; or
   c) other competent authorities concerned designated by the authorities referred to in Paragraph a) and b), if the market share of the regulated entities of the conglomerate in the Member State of the authority concerned reaches five per cent, and the importance in the conglomerate of any regulated entity authorized by this authority is significant;

128) 'insurance company' shall mean an insurance company within the meaning of Point 10 of Subsection (1) of Section 3 of the Insurance Act; for the purposes of Chapter XIX/B a third-country insurance company within the meaning of Point 23 of Subsection (1) of Section 3 of the Insurance Act shall also be considered an insurance company.

129) 'ISIN code' shall mean an international identification code comprising letters and numbers assigned by the central depository to securities of the same type and to exchange products, or a combination of such codes.

(2) For the purposes of this Act
   1) 'Treasury' shall mean the Hungarian State Treasury Rt.,
   2) 'ÁKK Rt.' shall mean the Government Debt Management Rt.,
   3) 'NBH' shall mean the National Bank of Hungary,
   4) 'Commission' shall mean the State Financial Institutions Commission,
   5) 'credit institution, bank, specialized credit institution, cooperative credit institution' shall have the same meaning as defined in the CIFE,
   6) 'branch office' shall have the same meaning as defined in the FCA and in the CRA,
   7) 'foreign company' shall have the same meaning as defined in the FCA.

PART TWO

FORMS OF ISSUE AND MARKETING OF SECURITIES

Chapter III

FORMS OF ISSUE OF SECURITIES

General Provisions

Section 6.

(1) Securities may be issued to represent a share or other interest in property of the issuer evidenced by certificate, or in the form of dematerialized securities.
(2) Securities issued as part of a series may be issued only in a registered form.
(3) Only registered and, with the exception of government securities, dematerialized securities may be offered to the public.
(4) All securities issued as part of a series must be of the same class and of the same face value.
(5) No certificate may be issued subsequently for dematerialized securities, nor in connection with securities that were dematerialized.

Issue of Dematerialized Securities
Section 7.

(1) Any written instrument pertaining to dematerialized securities must clearly indicate that it is not a financial instrument.

(2) The issuer of dematerialized securities shall attach a single written instrument - that does not qualify as a financial instrument - with each security, that is to contain:
   a) all material particulars of the security as is prescribed by law, with the exception of the name of its holder,
   b) the instruction for issue,
   c) the aggregate face value of the entire series in issue,
   d) the number and face value of the securities issued, and
   e) the authorized signature of the issuer, or the signatures of two board members of the issuing corporation in respect of shares.

(3) Dematerialized securities are registered instruments with no serial number, where the name and other identification information of the holder is contained in the securities account.

Section 8.

(1) If the data specified in Paragraphs c) and d) of Subsection (2) of Section 7 is altered in consequence of the issuer's decision to issue additional securities within the same series, the original written instrument is to be retired and a new one shall be issued.

(2) If issue is accomplished through subscription, the issuer is to provide the written instrument specified in Subsection (2) of Section 7 on the day immediately following the date of closing the subscription. If allocation is introduced after the closing of the subscription procedure, the written instrument shall be provided on the day immediately following the date of closing the allocation. In the event of any other form of marketing, the written instrument is to be issued immediately following the day when the quantity of securities in issue is finalized.

(3) When issue is accomplished without a subscription procedure, meaning the issued instruments are sold directly to investors, the issuer shall specify the upper limit for the aggregate value of securities in issue and shall furnish the written instrument specified in Subsection (2) of Section 7 on the business day preceding the initial date of sale, and shall register any changes in the quantity of securities sold in a new written instrument submitted daily to the central depository.

Section 9.

(1) The issuer shall deposit the written instrument specified in Subsection (2) of Section 7 in the central depository, and at the same time shall order the central depository to produce the security to which it pertains.

(2) In respect of the issue of dematerialized securities, upon commencement of the holder's entitlement to receive the security the issuer shall forthwith inform the central depository based on the outcome of the allocation procedure and shall communicate the name of the investment service provider maintaining the securities accounts of the holder, along with the number of securities to be credited under the central securities account. By instruction of the issuer the central depository shall open the central securities account as consistent with the written instruments specified in Subsection (2) of Section 7 and with the issuer's notice by crediting the corresponding securities.

(3) The investment service provider - upon receipt of notice from the central depository on the opening of the central securities account - shall credit securities with the same transaction date to the securities account he maintains, and shall notify the account holder accordingly. The transaction date on new issues of dematerialized securities may not be retroactive.

(4) It is the central depository's responsibility to ensure that the quantity of securities issued in the same series corresponds with the quantity shown under the central securities accounts at any given time. If the
quantity of securities registered in the central securities accounts differs from the quantity issued as part of a series, the central depository shall promptly investigate the reason and shall take measures to eliminate the discrepancy.

Conversion of Securities

Section 10.

(1) If an issuer converts securities evidenced by certificate into dematerialized securities and the conversion pertains to shares, the holders of such securities shall be notified to surrender their securities; notification shall be made within thirty days of the date on which the decision is made through the means specified under Subsection (5) of Section 37 as well as in the Cégközlöny (Companies Gazette).

(2) The notification shall specify the venue where the said securities are to be surrendered, as well as the date of commencement and the length of the conversion procedure, which may not be less than sixty days. However, if all the securities have been surrendered the procedure may be ended before the sixtieth day.

(3) When surrendering securities the holder must specify the investment service provider contracted to maintain his securities account. Failure to provide the name of such investment service provider shall be treated as failure to surrender.

(4) The surrendering of securities shall be administered by a custodian. The securities deposited in the central depository at the time the conversion takes place shall be regarded as surrendered, provided the holder has a securities account.

Section 11.

(1) The operative date of conversion shall be business day immediately following the last day specified by which to surrender the securities. On this day the issuer shall issue the written instrument specified in Subsection (2) of Section 7.

(2) The custodian shall record the securities received in securities deposit accounts until the time of conversion. On the day of conversion, the central depository shall credit the holder’s central securities account with a quantity of dematerialized securities that is the same as the securities certificates received. Next, the securities intermediary shall promptly record the said amount of dematerialized securities in the holder’s securities account.

(3) After the day of conversion, the central depository shall record any securities that are part of the converted series and for which the corresponding securities certificates were not surrendered in the issuer’s securities account; title of ownership of such securities recorded in the account shall be held by the last owner of the securities certificates, also taking into account the provisions of Subsection (2) of Section 12.

(4) In regard to securities placed in a blocked account, the securities intermediary is to ensure that the received dematerialized securities are placed in a blocked account under the same terms and conditions and in continuation of the previous account.

Section 12.

(1) Effective as of conversion, the issuer shall retire the converted securities series and register them as dematerialized securities. The serial numbers of the securities certificates that were not surrendered for conversion are to be registered. Concerning the conversion of debt securities and investment certificates, the holder of such certificates - upon surrendering them and upon specifying the name of the investment service provider keeping his securities account - may request that the dematerialized securities be credited to his securities account until the maturity of the securities or until the termination of the investment fund that issued the investment certificates. In respect of shares and other instruments giving a right to participate in company capital, the issuer shall sell them within six months of the date of conversion...
through an investment service provider. The issuer shall publish the rules of the sales procedure in the notification on conversion. If the sales procedure fails, the issuer shall decrease the share capital at the first general meeting held after the deadline for sale has expired.

(2) Retired securities cannot be negotiated. However, the holder of such securities may demand his certificates be replaced by dematerialized securities, or if the sales procedure has been completed, or following the maturity period of debt securities or the termination of the investment fund if it concerns investment certificates, the holder may demand the price of the dematerialized securities if sold, or the redemption price due upon maturity. The issuer shall keep the price received for the securities or the redemption price due upon maturity in a deposit account opened at a credit institution. Any holder of securities who did not surrender the certificates in due time shall be liable to cover the costs incurred up to the time at which the securities are redeemed. Concerning the term of limitation, any arising money claim shall be treated as would a claim for surrendering the security that it replaces.

Chapter IV
MARKETING OF SECURITIES

Private Offering of Securities

Section 13.

It shall be construed as a private offering when securities are offered exclusively to specific investors selected in advance (hereinafter referred to as 'private offering'), based on letters of intent supplied by such investors, including

a) when offered to only institutional investors;

b) when a corporation provides shares to its shareholders free of charge from its assets other than the share capital;

c) the exchange of securities by the issuer that does not result in any increase in the issuer's share capital, provided that the replacement securities were not offered publicly, either.

d) the exchange of securities by the issuer for where the securities are marketed through the conversion of convertible bonds or the redemption of any other right from securities, provided that the replacement securities were not offered publicly, either.

e) when equity securities are offered in payment for acquiring any participating interests in a corporation;

f) when equity securities are offered for payment underlying the merger of corporations;

g) when the issuer sells securities to its employees, present or former, and to its elected officers.

Section 14.

(1) The private offering of debt securities shall be subject to the following criteria:

a) an information circular must be prepared to describe the securities to be issued and the issuer, and it shall be submitted to the Commission along with a draft version of the transcript of the securities and of the written instrument supplied with dematerialized securities;

b) the Commission must be informed concerning the class, type, face value, quantity, and code of the securities to be issued, as well as the prospective buyers, whether selected or targeted, fifteen days prior to the initial date of marketing;

c) proof of payment of procedural charges must be provided.

(2) Privately placed debt securities cannot be denominated for less than ten million HUF.

(3) The private placement of debt securities must take place through an investment service provider, with the exception
a) when a credit institution or investment enterprise offers its own securities in issue, or if government securities are offered by the issuer himself;

b) when a foreign-registered credit institution or a foreign-registered investment enterprise offers its own securities in issue by way of its branch office.

Section 15.

(1) An information circular is to afford sufficient information on the securities to be issued and on the issuer in terms of financial standing, business and legal aspects, to permit the investor to evaluate any inherent risks. The information circular must be signed by an authorized representative of the issuer, guaranteeing that its contents are true and correct and that all required notifications have been made.

(2) The information circular must not contain any misleading information, nor any statement and/or analysis likely to draw a misconclusion, and must not conceal any fact that might jeopardize the objective described in Subsection (1). The information circular shall be delivered to the investors, or shall be made available through electronic channels.

(3) The mandatory contents of the information circular are provided in Schedule No. 23 and the mandatory content of the information circular prepared for the issue of bonds by local governments is provided in Schedule No. 24.

Section 16.

In respect of the private placement of shares the issuer (founder) shall submit

a) its charter document and by-laws,

b) the resolution of the general meeting or the board of directors if it concerns equity securities,

c) the share's securities registration code,

d) for information purposes, the draft version of the transcript of the securities or the written instrument specified in Subsection (2) of Section 7,

e) letters of intent supplied by the shares' prospective subscribers, and

f) proof of payment of administration fees and service charges
to the Commission at the same time when submitting them to the court of registration.

Section 17.

(1) In the event that securities are placed in violation of the legal provisions governing a private offering, or if intended to evade legal regulations,

a) if it involves shares, the Commission shall advise the issuer or the founders of the issuer within fifteen days upon receipt of the documents described in Section 16, and shall simultaneously notify the court of registration regarding non-compliance with the legal provisions governing a private offering;

b) if it concerns debt securities, the Commission shall ban their placement within fifteen days upon receipt of the notification specified in Section 14.

(2) The Commission's failure to respond within fifteen days shall be construed as its acknowledgement of the notification on the private offering.

Section 18.

All written correspondence created in connection with the private offering of securities must clearly indicate that they are offered privately. All documents in connection with a private offering must be delivered directly to the investors concerned.

Section 19.
The issuer shall inform the Commission concerning the final sales results within fifteen days following the closing of the placement procedure.

Section 20.

(1) As regards the offering of privately issued securities for sale to the general public without limitations as to the buyers, the provisions on the public placement of securities and on publicly held securities shall be observed as appropriate. In the application of these provisions, any security transferred without any pre-selection process shall be considered offered to the general public, when the transferor makes the offer to individual persons whose names he received from various registers, but with whom he has no personal or business relationship.

(2) Secondary securities issued on privately placed securities cannot be offered publicly.

Public Offering of Securities

Section 21.

Any marketing of securities by ways other than private offering shall be subject to the regulations on public offering.

Public Offering of Government Securities

Section 22.

(1) The public offering of government securities shall be subject to the following criteria:
   a) the issuer must publish a public-offer prospectus and a public announcement, and
   b) this must be done by an investment service provider or by the issuer himself.

(2) The public-offer prospectus is to contain the terms and conditions concerning the marketing and trading of government securities. For information purposes, the public-offer prospectus shall be submitted to the Commission in advance. The public-offer prospectus shall be published in its entirety in accordance with the provisions laid down in Subsection (4) of Section 37 and shall be posted at sales locations for inspection by the investors.

(3) The public announcement contains the terms of conditions for the sale of securities and the listing particulars of the securities. The issuer shall publish the public announcement - jointly with the investment service provider when one is involved in the marketing procedure - three or more days prior to the initial date of subscription in accordance with the rules governing publication in the place referred to under Paragraphs b) or c) of Subsection (5) of Section 37. The issue price - if specified in advance - shall be indicated in the public announcement or shall be published the same manner as the public announcement no later than on the business day preceding the initial date of subscription.

(4) Government securities may also be offered to the public within the framework of an issue program. An issue program may be devised to offer various types of government securities using various types of placement methods.

(5) The mandatory layout of the public-offer prospectus and the public announcement is illustrated in Schedule No. 2.

(6) In the event that the issuer intends to alter the rights embodied in the securities in issue or to make any changes in the public-offer prospectus underlying the public offering, a draft of the changes shall be sent to the Commission at least three business days before their proposed date, and it shall be published under the procedure specified in Subsection (3).

Public Offering of Other Securities
Section 22.

(1) The public offering of securities, other than government securities, shall be subject to the following criteria:
   a) the issuer must publish a prospectus and a public announcement, and
   b) it shall be organized and executed by an investment service provider, with the exception
     1) when a credit institution or investment enterprise offers to issue its own securities, or
     2) when a foreign-registered credit institution or a foreign-registered investment enterprise offers to issue its own securities by way of its branch office.

(2) Debt securities may also be offered to the public within the framework of an issue program. An issue program may be devised to offer various types of debt securities using various types of placement methods.

(3) In addition to the above, bonds may be offered to the public if the issuer or his predecessor has been operating for at least one full fiscal year, unless it is guaranteed by Government surety facilities, or if secured by specific and designated assets and/or instruments pledged in collateral.

Section 24.

(1) In connection with the public offering of debt securities, if following the issue the amount of credit liabilities of the issuing economic organization - including those entailed upon the debt securities to be issued - is in excess of the issuer's equity capital, or if the issue of debt securities is secured by specific and designated assets and/or instruments pledged in collateral, the issuer must have a credit analysis prepared by a professional credit rating agency that is recognized by the Commission, with the exception if
   a) the issuer is a credit institution, or
   b) repayment is guaranteed by Government surety facilities or secured by a bank guarantee or some other form of surety provided by a credit institution.

(2) When the credit liabilities of an issuer - other than a credit institution - are in excess of its equity capital, it must be clearly and expressly specified in all documents which are incidental to the issue (including advertisements), along with the credit rating referred to in Subsection (1).

(3) In the cases defined under Subsection (1) the credit rating must be repeated at least once a year throughout the maturity period of the debt securities issued, and the results shall be published in accordance with the rules governing publication [Subsection (4) of Section 37].

(4) The Commission shall publish the list of recognized credit rating agencies in the Pénzügyi Közlöny (Financial Gazette). The Commission shall recognize a credit rating agency and adopt it to the list if the credit rating methods the agency employs are proven reliable as supported by previous data as having been applied and tested for at least one year, if it reports qualitative and quantitative characteristics to the public concerning economic reality and transparency, and if it has sufficient financial means to ensure proper operations.

(5) The requirements contained in Subsection (1) must be satisfied in the cases of continuous issue and issue programs as well.

Section 25.

(1) An investment service provider or a clearing house that is licensed to undertake subscription guarantees and to provide custodial services for securities may issue secondary securities - under an agreement with the issuer - on the securities in their possession, and when so instructed by the owners of the securities that were issued as part of a series.

(2) Secondary securities shall contain:
   a) the name of the issuer,
   b) all components of the underlying principal securities,
c) the securities code of the secondary securities,
d) the place and date of issue of the secondary securities,
e) the aggregate face value of the entire series issued,
f) the quantity of securities issued, and
g) the signature of the issuer.

(3) During the life of secondary securities no rights may be exercised through the underlying principal securities.

Section 26.

The subscription, purchase or transfer of the title of securities that were offered in the absence of a prospectus approved by the Commission and without having published a public announcement, and - with the exception laid down under Paragraph b) of Subsection (1) of Section 23 - without the involvement of an investment service provider shall be null and void.

Prospectus

Section 27.

(1) All prospectuses for public offering must include the information necessary for investors to be able to make an informed judgement of the issuer in terms of market position, financial standing, business and legal aspects, and of any foreseeable future developments in them.

(2) All data, information, statements and analysis contained in a prospectus for public offering, or in an announcement published in relation to such a prospectus or the securities to which it pertains, must be true and correct, and shall be sufficient to achieve the objective defined in Subsection (1).

(3) The prospectus for public offering or the announcement must not contain any misleading information, nor any statement and/or analysis likely to draw a misconception, and must not conceal any fact that might jeopardize the objective described in Subsection (1).

(4) The issuer of secondary securities shall prepare an information circular referred to in Section 15, with a prospectus containing the particulars of the underlying securities enclosed.

(5) When debt securities in issue are secured by specific and designated assets and/or instruments pledged in collateral, the prospectus for public offering must describe such assets and instruments in detail and shall offer information concerning the future profit forecast and expenses in connection with such assets and instruments and any risks inherent in them.

Section 28.

The mandatory layout of the prospectus for public offering is illustrated in Schedules Nos. 3 and 4.

Section 29.

(1) The prospectus for public offering must expressly specify if there is any preemptive right attached with the securities to which it pertains, and its consequences concerning allocation.

(2) The prospectus for public offering must clearly indicate
   a) if the shares are issued in connection with the foundation of a corporation;
   b) if the credit liabilities of the issuer - other than a credit institution - will be in excess of its equity capital following the issue of the debt securities in question, or the credit rating referred to in Subsection (1) of Section 24;
   c) a statement from the issuer's auditor declaring that the financial figures and other material information contained in the prospectus concerning the period preceding the issue are in accordance with
the issuer’s books and records, and that the accounts made in consequence are true and correct, furthermore

d) the liability of the issuer and the broker/dealer as laid down in Subsection (1) of Section 40.
e) if there are any plans for the admission of the securities into the official listing.

Simplified Prospectus

Section 30.

(1) In connection with the public offering of securities, the issuer or the broker/dealer may draw up a simplified prospectus instead of the full prospectus referred to in Sections 27-29 if the full prospectus referred to in Sections 27-29 had been published by the same issuer within the six months prior to the initial date of marketing.

(2) The simplified prospectus shall contain the listing of particulars and any financial, business and legal information that is not contained in the previous prospectus. A simplified prospectus may be made available only if accompanied by the full prospectus to which it relates.

(3) As regards the authorization of the publication of a simplified prospectus, its publication and the authenticity of data and information contained therein, the legal provisions on prospectuses for public offering shall be observed.

(4) If the same issuer publishes two or more simplified prospectuses within the same year, they shall be drawn up consolidated.

Information Requirements in Connection with Securities Issued as Part of an Issue Program

Section 31.

(1) With regard to the offering of securities as part of an issue program, the issuer must apply the regulations on public offering when initiating the program.

(2) The issuer shall publish details of the issue program and shall announce the starting date of the first issue within the program at least seven days in advance.

(3) As regards the various segments of an issue program, the issuer shall submit the listing particulars (for example: the aggregate face value of the securities issue, their period of maturity, redemption date, yield and any other proceeds, the marketing method, and the code of new securities issued as part of a series, etc.) to the Commission at least three working days before the initial date of listing and shall make the listing particulars available to the public.

(4)

(5) The Commission's approval granted for an issue program shall be valid for a maximum of two years.

Authorization for the Publication of Prospectuses and Public Announcements

Section 32.

(1) The Commission's authorization is required for the publication of prospectuses and public announcements. An application for authorization is to be submitted jointly by the broker/dealer and the issuer.

(2) An application for authorization shall have the following enclosed:

a) a draft version of the prospectus in three copies;
b) a draft of the transcript of the public announcement;
c) a draft of the subscription sheet if placement takes place by subscription;
d) a draft of the written instrument on dematerialized securities;
e) proof of payment of administration fees and service charges;
f) if the issuer is a corporation or a cooperative, its certificate of incorporation and bylaws (charter
document) or the articles of association;
g) the issuer's resolution on the issue, and
h) the contract between the investment service provider hired to organize and execute the marketing
procedure and the issuer, or a draft agreement, or the contracts between the various investment service
providers participating in the marketing procedure.
(3) When requested by the Commission the issuer and the broker/dealer must provide proof in the form
of data and documents to verify the information contained in the prospectus.
(4) The Commission shall have powers to inspect the documents of the broker/dealer and the issuer
underlying the prospectus, to request copies of such documents or to have them analyzed by an
independent expert.
(5) The Commission shall have powers to require that certain specific data in the prospectus be provided
in detail, or to require additional information or that certain specific data be stricken from the prospectus.
(6) Where investment in any particular security carries higher-than-average risks from the investors'
point of view, the Commission may instruct the broker/dealer and the issuer to expressly indicate such
exposure in the beginning of the prospectus and in all announcements and advertisements.

Section 33.

The issuer and the broker/dealer must immediately notify the Commission in the event of receipt of any
information during the authorization procedure that facilitates corrections (revision, amendment) to be
made in the draft prospectus submitted.

Section 34.

(1) The Commission shall refuse to grant authorization if the prospectus is not in conformity with the
provisions of this Act and other legal regulations, or if its intended purpose is to misuse some right, or if
the broker/dealer or the issuer fails to comply with the measures specified in Subsections (3)-(6) of
Section 32.
(2) If a public announcement or a prospectus is not published within thirty days of receipt of the
authorization, it may be published thereafter only if the Commission has renewed the authorization.
(3) The marketing procedure shall commence within fifteen days following publication of the
prospectus and the public announcement.

Amendment of a Prospectus

Section 35.

(1) If the Commission learns about any material fact or circumstance between the time of authorization
and the closing of the marketing procedure that warrants the amendment of the prospectus, the
Commission shall order it to be amended upon hearing the issuer and the broker/dealer.
(2) The issuer and the broker/dealer must take immediate measures for the amendment of the prospectus
upon learning of any material fact or circumstance between the time of authorization and the closing of
the marketing procedure that warrants the amendment of the prospectus.
(3) Amendment of a prospectus shall be subject to authorization by the Commission. Authorization for
the amendment of the prospectus shall not constitute an extension of the deadline specified in Subsection
(2) of Section 34. The procedures for the authorization of amendments shall be subject to the provisions
on the authorization of the publication of prospectuses.
(4) The issuer and the broker/dealer shall promptly notify the public concerning the amendment of the
prospectus as authorized by the Commission under the provisions governing the publication of
prospectuses.
(5) Where Subsection (1) or (2) applies the Commission may order the suspension of the marketing procedure until the amendment is published.

(6) If before the closing of the marketing procedure the Commission learns about any material fact or circumstance, based on which authorization for the publication of the prospectus should have been rejected or that is of significant injury to the investors’ interests, the Commission shall withdraw its authorization granted for the publication of the prospectus and shall compel the issuer and the broker/dealer to terminate the marketing procedure.

(7) During the period between the time when authorization for the publication of the prospectus is received and the closing of the marketing procedure, the data specified in Paragraph f) of Part I of Schedule No. 3 and in Paragraph e) of Schedule No. 4 cannot be revised, with the exception of the quantity of securities offered.

The Public Announcement

Section 36.

A public announcement shall contain:

a) the number and date of the Commission’s authorization for the publication of the relating prospectus;
b) description of the securities offered and the name of the issuer;
c) the quantity of securities offered, their face value and selling price or the applied pricing method;
d) the approved duration of the marketing procedure and the locations where the securities can be subscribed;
e) the method of offering and the terms of payment;
f) information as to where the prospectus is published or circulated, including the date indicating when and the medium where inserted.

Publication of the Public Announcement and the Prospectus

Section 37.

(1) A public announcement shall be communicated jointly by the issuer and the broker/dealer in the form of advertisement.

(2) The advertisement shall be published at least seven days before the initial date of the marketing procedure in one or more of the mediums defined under Subsection (5).

(3) By way of derogation from the provision of Subsection (2), the issue price may be announced on the day immediately preceding the initial day of the marketing procedure. In this case the public announcement shall specify the date of announcement of the issue price.

(4) Before the commencement of the marketing procedure the prospectus for public offering shall be made available to the public in its entirety

a) in a medium defined under Subsection (5) in the form of advertisement, or
b) it shall be distributed free of charge at all sales locations.

(5) Publication shall take place

a) in a daily newspaper of nationwide circulation and
b) in an electronic data transmission and data storage public network that is operated by the Commission, or one that is recognized and approved by the Commission, used for the publication of information received from actors of the capital markets, or
c) in a daily news medium published by the Commission, or one that is recognized and approved by the Commission, used for the publication of information received from actors of the capital markets.

(6) When published through electronic channels easy access to the prospectus must be ensured until the securities to which it pertains are in circulation.
Rules of Advertisement

**Section 38.**

(1) The draft of all documents, advertisements, promotional materials, flyers and posters (for the application of this Section, hereinafter jointly referred to as 'document') that in any way or form pertains to the offer for the duration of the marketing procedure shall be submitted to the Commission at least three working days before it is made available to the public. The Commission may ban a document from publication if it contains any information that is in contrast with the draft version submitted and approved for publication as well as any information that is misleading.

(2) The Commission's failure to respond within three business days following submission of the documents specified in Subsection (1) shall be construed as approved for publication under the legal provisions governing the powers and jurisdiction of the Commission.

**Section 39.**

The broker/dealer and/or the issuer shall inform the Commission concerning the final results of the marketing procedure within five days after it has been concluded and shall make it available to the public by way of the means specified in Subsection (5) of Section 37.

Rules of Liability in Connection with Prospectuses

**Section 40.**

(1) The issuer and the broker/dealer (or the broker/dealer acting as the syndicate leader where applicable) shall be subject to joint and several liability for any and all damage caused to an investor by supplying misleading information or by concealing material information in connection with the offering of securities. This passage shall be contained in the prospectus.

(2) A signed declaration of liability shall be supplied by both the issuer and the broker/dealer (or the broker/dealer acting as the syndicate leader where applicable) and they shall be attached as integral parts of the prospectus. The declaration shall stipulate that all data and information in the prospectus are true and correct, and that it contains all information necessary for investors to make an informed judgement of the issuer and the securities to which it pertains.

**Section 41.**

If any amendment is made in the prospectus during the marketing procedure, any investor who has subscribed or purchased securities before the amendment was made available to the public shall be entitled to cancel such subscription or purchase within fifteen days from the date when the amendment was published, if the amendment adversely affects the market position of the said securities and if the subscription or purchase took place within sixty days prior to the publication of the amendment. In the event of cancellation the issuer and the broker/dealer shall be under joint and several liability to compensate the investor for all costs and damages sustained in connection with the subscription or purchase. An allocation procedure may not be initiated for a period of fifteen days following the publication of amendment.

**Section 42.**

(1) Where any offer of securities is rendered contingent on certain minimum quantitative criteria by legal regulation or by the issuer, and the entire quantity specified is not covered by commitments by the
closing day of the marketing procedure, the issuer and/or the broker/dealer must refund in full the moneys received - without interest - within seven days from the closing date of the marketing procedure under the terms and conditions stipulated in the prospectus.

(2) In the event that the Commission's authorization for the publication of the prospectus is revoked, the issuer or the broker/dealer must refund all moneys received for subscription or purchase within fifteen days from the date when the authorization was revoked. The issuer and the broker/dealer shall be under joint and several liability to compensate the investor for all costs and damages sustained in connection with the subscription or purchase.

Section 43.

The issuer and the broker/dealer (syndicate leader broker/dealer) shall be subject to the liability defined under Sections 40-42 for five years from the publication of the public announcement to which it pertains. This liability cannot be validly excluded or limited.

Admission of Securities to Official Stock Exchange Listing

Section 43/A.

The Commission’s consent is required for the admission of securities to the official stock exchange listing. The issuer shall submit to the Commission an application for authorization for admission to the stock exchange listing together with the application for authorization for a public offering and for the publication of the prospectus, or it may do so subsequently. The Commission’s authorization for the publication of the prospectus shall also constitute authorization for listing on the stock exchange according to the provisions pertaining to prospectuses and simplified prospectuses. If the application is also for authorization for listing in the state tax authority, the prospectus and the simplified prospectus must contain the mandatory contents specified in Part IV of Schedule No. 3 and in Paragraph f) of Schedule No. 4, respectively. Once the Commission has granted authorization for listing a securities series, decision for admission and for commencement of trading shall be made according to the bylaws of the stock exchange.

Marketing Procedures and General Regulations

Section 44.

(1) Any offer rendered subject to some condition shall be null and void. A purchase offer made by an investor for the acquisition of securities shall be considered valid only if made in writing, whether on a printed form or in an electronic document executed by a qualified electronic signature, or if made through a trading system that is recognized by the Commission. The purchase offer shall expressly stipulate that it was made under the investor's entire understanding of the contents of the related prospectus (simplified or full).

(2) The written purchase offer shall be accepted only if made by a person who has a securities account and has provided in the purchase offer the identification data of the securities intermediary operating his securities account as well as the number of the account.

(3) Unless instructed by the issuer to the contrary, each sales location shall report to the issuer each day throughout the entire duration of the marketing procedure of the contracts concluded.

(4) Written offers for the purchase of securities shall be accepted only under the conditions stipulated in the public-offer prospectus, in the prospectus for public offering or in the simplified prospectus to which it pertains (meaning at the sales locations, under the period approved for marketing, during business hours). Securities shall be delivered only if a purchase offer has been received.
(5) Any personal data supplied by an investor to the issuer, the seller or the broker/dealer cannot be used in the absence of the express written consent of the investor - for purposes other than in connection with the marketing of the securities.

Section 45.

Any payment made by an investor in the course of the marketing procedure to the issuer or the broker/dealer shall be placed in a deposit account maintained in a credit institution. Any person receiving money on behalf of the issuer or the broker/dealer in the course of a marketing procedure must place such moneys in the deposit account without delay. The sums placed in a deposit account cannot be used until the refund specified under Section 42 is settled or until it is resolved that no such refund applies.

Allocation

Section 46.

(1) The prospectus for public offering, the simplified prospectus or the public-offer prospectus shall contain an indication as to the closing date of the allocation procedure following the conclusion of the marketing procedure, and method of notification concerning the results of the allocation.

(2) In an allocation procedure the persons who made a written purchase offer for securities during the first three days of the marketing procedure shall receive the same treatment irrespective of the time when the offer was made.

(3) If the purchase of any particular securities cannot be accepted in full or in part for the reasons specified in the prospectus, the issuer and the broker/dealer shall refund any and all payments made in connection with such securities within seven days following the conclusion of the marketing procedure.

Section 47.

Marketing of securities may be accomplished by
a) subscription,
b) auction,
c) continuous issue, or
d) progressive issue.

Subscription Procedure

Section 48.

(1) A subscription procedure must be conducted if prescribed by law, or if the public offering is rendered contingent on certain minimum quantitative criteria.

(2) Where subscription guarantee applies, the total amount of subscription guarantee commitments must be at least that of the amount specified in the prospectus as the minimum quantitative criteria.

(3) The approved period of subscription shall be determined by the issuer, however, it may not be less than three business days or more than sixty business days.

(4) Subject to the provisions laid down in Subsection (3), the issuer may close the subscription before the designated closing date, if the entire quantity of issue is subscribed and if the prospectus contains a clause permitting early closure.

Auction
Section 49.

(1) The issuer and/or the broker/dealer shall communicate in the prospectus for public offering or in the public-offer prospectus the date and method of the auction, the criteria for participation and the conditions of the auction, such as the minimum or maximum quantity to be offered and the rules of allocation.

(2) Where the issuer and/or the broker/dealer has specified a minimum or maximum price, it must be communicated to the authorized bidders before the beginning of the auction.

(3) Bids made in auctions must be unconditional, and shall be irrevocable after the bidding deadline.

(4) Bids - and their acceptance - shall be considered valid only if made in writing or in an electronic document executed by a qualified electronic signature, or if made through a trading system that is recognized by the Commission.

(5) The results of the auction shall be determined by the issuer or the broker/dealer within two business days following the bidding deadline.

Continuous Issue

Section 50.

(1) Government securities and other debt securities may be marketed by way of continuous issue.

(2) Continuous issue - with the exceptions laid down in Subsections (3) and (4) - shall be governed by the general rules pertaining to public offering procedures.

(3) During the period of issue, the issuer and the broker/dealer are required to prepare a simplified prospectus as specified under Subsection (2) of Section 30 to reflect their financial standing and business and legal situation as of 30 June of the current year, and they shall make it available to the public and send it to the Commission within forty-five days. This provision shall not apply in respect of the continuous issue of government securities.

(4) The annual report published during the period of issue shall be updated as consistent with any changes incurred by the said continuous issue.

Progressive Issue

Section 51.

(1) Government securities and other debt securities may be offered to the public by way of progressive issue.

(2) During the issue period the issuer shall be entitled to change the issue price of securities offered by way of progressive issue.

Chapter V

OBLIGATION OF DISCLOSURE OF ISSUERS OF PUBLICLY OFFERED SECURITIES

Periodic Disclosure of Information

Section 52.

(1) With the exception of government securities, an issuer of securities that have been offered to the public must disclose essential details on its financial position and general development of its business activities. The requirement of regular disclosure shall be satisfied by supplying yearly and half-yearly flash reports and annual accounts. Local governments shall not be required to file yearly and half-yearly flash reports.
(2) Issuers must prepare their flash reports within forty-five days following the period to which they pertain, and their audited annual accounts within one hundred and twenty days following the relevant fiscal year. The flash reports shall expressly indicate that the figures contained therein are not based on audited accounts.

(3) The reports and the accounts shall also contain the relevant data from the same period of the previous year.

(4) The issuers required to file consolidated accounts shall disclose the data which are based on the consolidated accounts in accordance with Subsection (5) by the deadline prescribed in the Accounting Act.

(5) Issuers shall take adequate measures to enable the investors to review their yearly and half-yearly flash reports and their annual accounts. They shall publish an announcement by way of the means specified in Subsection (5) of Section 37 within forty-five days following the relevant period and within one hundred and twenty days following the relevant fiscal year to inform the investors concerning the completion of the flash reports and the annual account and the place and the date where and when they can be inspected. The flash reports and annual accounts shall be made available for review within seven days of the date of the announcement. The flash reports and excerpts of the annual account, which shall contain at least the information contained in the flash report, shall be made available for review within seven days of the date of the announcement by way of the means specified in Subsection (5) of Section 37.

(6) The yearly and half-yearly flash reports and the annual accounts shall be sent to the Commission, respectively, within forty-five days following the relevant year or six-month period, and within one hundred and twenty days following the fiscal year to which they pertain.

(7) When a flash report or an annual account of the issuer fails to meet the requirements laid down in this Act, the Commission may instruct the issuer to make revisions and/or to supply additional information within the deadline specified. The revised or amended flash report and annual account shall be published in due observation of the provisions laid down in Subsection (5).

(8) As regards the issue of secondary securities, the issuer must make available to the public at all sales locations the information disclosed in connection with the underlying principal securities as contained in the yearly and half-yearly flash reports; the public shall be entitled to review this information or take it out at no charge.

(9) The mandatory layout of regular disclosures of information is illustrated in Schedule No. 5.

(10) When debt securities issued are secured by specific and designated assets and/or instruments pledged in collateral, the information disclosed must indicate any change in the value of such assets and instruments and shall offer information concerning the future profit forecasts and expenses in connection with such assets and instruments.

(11) In respect of listed securities, the stock exchange may prescribe in its bylaws - as approved by the Commission - additional requirements for the issuers of such securities in terms of publication and access apart, from what is described in Subsection (5).

Section 53.

(1) Yearly and half-yearly flash reports and annual account must be executed by an authorized signatory of the issuer. The issuer shall be liable for the authenticity of any and all data and information contained in the yearly and half-yearly flash reports and in the annual accounts.

(2) Yearly and half-yearly flash reports and annual accounts shall have a declaration attached in which the issuer guarantees that all data and information contained therein are true and correct, and that it contains all information necessary for investors to make an informed judgement of the issuer.

(3) The international financial institutions referred to in Schedule No. 1 to the CIFE shall publish - in accordance with Subsection (5) of Section 52 - their annual accounts prepared under the laws of the country in which they are established.

(4) Any issuer who publishes a prospectus during the period specified in Subsection (2) of Section 52 shall not be required to disclose a report for the same period on condition that the prospectus satisfies all
requirements prescribed for the annual account or the flash report. The prospectus and the public announcement shall contain an indication that a flash report or the annual account will not be disclosed following publication of the prospectus.

**Extraordinary Disclosure of Information**

*Section 54.*

(1) Issuers of publicly offered securities, other than government securities, shall send without delay or within the following business day to the Commission and disclose through the means specified under Subsection (5) of Section 37 any information referred to in Schedule No. 6 that concerns, directly or indirectly, the value or yield of their securities issue.

(2) The time limit referred to in Subsection (1) shall begin when the relevant decision is made, or when the event or occurrence takes place, or when the issuer is informed of such an event or occurrence.

(3) In respect of listed securities, the stock exchange may prescribe in its bylaws - as approved by the Commission - additional requirements for the issuers of such securities in terms of publication and access apart from what is described in Subsection (1).

(4) As regards the issue of secondary securities, the issuer must make available to the investors the extraordinary information disclosed in connection with the underlying principal securities.

(5) When debt securities issued are secured by specific and designated assets and/or instruments pledged in collateral, the issuer must, as referred to Subsection (1), disclose any extraordinary information that concerns, directly or indirectly, the value of such assets and instruments and hence the value or yield of the securities to which they are related in consequence of changes in the risks inherent in them.

**Common Rules of Regular and Extraordinary Disclosures**

*Section 55.*

(1) The issuer shall be liable for any and all damage caused by his failure to meet the obligation of regular and extraordinary disclosure of information. This passage shall be contained in the flash reports and in the annual account as well.

(2) If any false or untrue information that is made available to the public on the issuer is likely to have some degree of impact on the value or yield of his securities in issue, the issuer must forthwith publish the necessary corrections. The issuer's statement of correction must be made available to the public as specified in Subsection (1) of Section 54 and also in the medium where the false or untrue information was published.

(3) Where the obligation of disclosure, regular and extraordinary, concerns a liquidation or voluntary dissolution proceeding it shall be satisfied by the liquidator or the receiver.

**Termination of Disclosure Obligations**

*Section 56.*

The obligation of disclosure of information, regular and extraordinary, of an issuer of publicly offered securities shall terminate

a) upon maturity of the securities to which it pertains;

b) upon the Commission's decision specified under Section 57 in connection with the issue of public shares;

c) upon the repurchase of all securities before maturity.
Section 57.

(1) Any issuer who provides proof of having been reorganized to operate as a private limited company shall be entitled to request the Commission for exemption from the requirement to disclose information to the public with respect to the securities series to which the requirement relates.

(2) Simultaneously upon submitting the above-specified request, the issuer is to inform the holders of the said securities in the form of an extraordinary disclosure by way of the means specified in Subsection (5) of Section 37 concerning his request and the reasons therefor.

(3) The Commission shall decide whether to grant authorization or to reject the request after thirty days and before the forty-fifth day following the date of publication of the disclosure. The Commission may reject the request only if the criteria specified in Subsection (1) is not satisfied.

(4) As of the effective date of the Commission's authorization the issuer shall be relieved from the obligation to disclose regular or extraordinary information concerning the securities series to which the requirement relates.

(5) The issuer shall be required to publish the Commission's authorization by way of the means specified under Subsection (5) of Section 37.

Chapter VI

INTERNATIONAL TRADING OF SECURITIES

Public Offering of Foreign Securities in the Domestic Territory

Section 58.

For the public offering of securities issued by a foreign issuer in the domestic market, for their listing on a recognized market, and for the introduction of foreign-issued securities for sale in the domestic market to the general public without limitations as to the buyers (for the purposes of this Chapter hereinafter jointly referred to as 'trading'), the Commission's authorization is required. The authorization procedure shall be subject to the provisions on public offering, with the exceptions set forth in Sections 59-62.

Section 59.

(1) If the issuer is established in a Member State of the European Union and his securities are offered to the public or an application is submitted for their admission to the official listing of a recognized market simultaneously - or within a period of sixty days - in two or more Member States, the authorization referred to in Section 58 shall be granted by the supervisory authority of the country where the issuer is registered, if the public offer is made or the application for listing in the stock exchange is submitted in the Member State where the issuer is established.

(2) If no advance authorization is required for the prospectus in the Member State where the issuer is registered, the person making the public offer shall be entitled to select a competent authority of the Member States where the public offer is made or where the application for listing is submitted, and where the prospectus has to be authorized in advance.

(3) If the registered office of the issuer is not in a Member State where the public offer is made or where the application for listing on the stock exchange is submitted, the person making the public offer shall be entitled to select a competent authority of the Member States where the public offer is made or where the application for listing is submitted, and where the prospectus has to be authorized in advance.

(4) As regards the public offering of shares and convertible bonds, if the issuer's shares are already listed on the stock exchange and the relevant prospectus for public offering has already been approved in the Member State where the issuer is established, the Commission shall contact the supervisory authority of said Member State to receive its opinion.
(5) The issuer shall submit the prospectus for public offering, with the information specified in Subsection (6) enclosed, and their authentic Hungarian translation, and the authorization of the supervisory authority referred to in Subsections (2) and (3) to the Commission at least seven days before the initial date of marketing. The issuer shall inform the Commission of the Member State of the European Union where he has submitted an application for authorization, or of the Member State where he intends to submit an application for authorization within six months from the first application for authorization.

(6) The prospectus shall specify the method by which to provide information to Hungarian investors, the place and date where and when such information will be available, description of sales locations, and any tax liability incidental to the securities.

Section 60.

(1) The Commission shall grant the authorization referred to in Section 58, if

a) the investment instruments are treated as securities under Hungarian law or under the law of the country where the issuer is established;

b) the foreign issuer provides proof to the Commission of having satisfied the requirements prescribed for the marketing of such instruments by the law of the country where he is registered, or - if marketing is subject to authorization according to the laws of his country - the authorization and its authentic Hungarian translation;

c) there are adequate safeguards for resident investors to enforce their rightful claims against the issuer;

d) the issuer meets the criteria prescribed for the public offering of securities in the domestic territory;

e) the country in which the issuer is established has legal regulations on money laundering that conform to the requirements prescribed by Hungarian law.

(2) Under treaty or international cooperation agreement the Commission shall approve a prospectus if it satisfies the conditions required by the securities commission of a foreign country and authorized for publication in that country.

Section 61.

Securities issued by the international financial institutions referred to in Schedule No. 1 to the CIFE may be offered in the domestic market, if the issuer draws up the public offer prospectus in accordance with Schedule No. 7 and publishes it following the Commission's authorization in the manner prescribed for prospectuses for the public offering of securities.

Section 62.

(1) The public offering and trading in the domestic territory of securities issued by foreign issuers shall be permitted with the participation of a broker/dealer registered in a Member State of the European Union.

(2) The prospectus drawn up by the foreign issuer, and authorized or approved by the Commission, shall be published in a language of the issuer's choice and in the Hungarian language as well.

(3) By way of derogation from Section 22, for the public offering of securities issued by a foreign government a prospectus shall be published.

(4) The provisions laid down in Subsection (3) shall not apply in respect of securities issued by another Member State of the European Union.

Public Offering of Domestic Securities in Foreign Countries

Section 63.
(1) With the exception of government securities, the public offering of securities of resident issuers in foreign countries or their listing on a recognized exchange shall be notified to the Commission.

(2) With the above-specified notification the following shall be provided to the Commission:
   a) a draft version of the prospectus for public offering or information circular prescribed under the laws of the country where the securities are offered,
   b) the specimen (transcript) of the securities or a draft version of the dematerialized instrument.

(3) Securities of resident issuers may be offered in foreign countries only if traded on a recognized exchange.

(4) Any information supplied by the issuer under the obligation of disclosure, regular or extraordinary, as prescribed by the law of the country where the securities are offered, as well as those provided to the investor shall be submitted to the Commission in the language of the country where the recognized market is located and in Hungarian.

Section 64.

(1) By way of derogation from Section 63, the Commission shall authorize the public offering of securities of resident issuers in another Member State of the European Union, or their admission for listing on a recognized exchange, under the provisions applicable for public offering in the domestic territory, unless the person making the public offer has selected another authority under Subsection (2).

(2) If a resident issuer files an application for public offering or for admission to the official listing of the stock exchange of a Member State of the European Union, or simultaneously - within a period of sixty days - in two or more Member States, and the same issuer does not apply for the public offering of his securities in Hungary, the issuer shall be entitled to select a competent authority of the Member States where the public offer is made or where the application for listing is submitted, if the authority in question makes publication of the prospectus subject to advance authorization.

(3) When a resident issuer selects another competent authority under Subsection (2), the Commission shall be notified concerning the proposed issue of securities and of the competent authority selected, simultaneously when his application for authorization is submitted to the foreign supervisory authority.

(4) Biannual flash reports on shares listed on a recognized market shall be published in all of the Member States of the European Union, according to the publication rules of the given Member State in which its shares are listed on a recognized market. Any company whose shares are listed on a recognized market shall send a copy of its biannual flash report to the competent authorities of all of the Member States of the European Union in which its shares are listed on a recognized market.

PART THREE

ACQUISITION OF MAJOR HOLDING IN PUBLIC LIMITED LIABILITY COMPANIES

Chapter VII

GENERAL PROVISIONS

Section 65.

(1) For the purposes of this Chapter 'acquiring a holding' shall mean the acquisition of voting rights in the decision-making process of the general meeting of a public liability company, including a purchase option or repurchase option for voting shares, the call option on a future purchase agreement or the exercise of voting rights through the right of use or usufruct, furthermore, if the influence is acquired by any conduct other than an outright bid submitted by the buyer, such as inheritance, succession, or by way of a resolution of the public liability company that affects the voting rights of shareholders or that amends the voting percentages, or through the recovery of voting rights.
(2) Above and beyond what is contained in Subsection (1), an agreement between two shareholders of the company shall also be construed acquisition of major holding, if

a) in consequence one of the shareholders gains control to appoint and recall the majority of executive officers or members of the supervisory board, or

b) it stipulates the parties' commitment to govern the company by agreed terms and principles.

(3) As regards the acquisition of holding defined in Subsections (1) and (2) and its measure, direct and indirect acquisition of a major holding [Point 72 of Subsection (1) of Section 5] and the measure of holdings of close relatives [Paragraph b) of Section 685 of the Civil Code] shall be applied concurrently.

(4) A major holding shall also be construed as acquired if materialized by way of the concerted conduct of (independent) persons who are otherwise not engaged in an agreement defined in Subsection (3).

(5) For the purposes of this Chapter:

a) when voting right is exercised by a third person in his own name but on a shareholder's behalf, this shall be recognized as the voting right of the shareholder in question,

b) the voting rights of shareholder received on the basis of shares pledged in security for a contract shall be recognized as the voting right of the beneficiary of the security, unless there is an agreement to the contrary.

(6) By way of derogation from Paragraph a) of Subsection (5), where a third party acts in his own name but on a shareholder’s behalf and has registered himself in the share register as a shareholder and not as a nominee in accordance with Subsection (1) of Section 151 and Section 152, it shall be treated as a major holding acquired by such third party.

Section 66.

Where publication, publication obligation or submission for publication is prescribed in this Chapter, it shall be accomplished through the means specified in Subsection (5) of Section 37 and the website of the company, if available. An announcement of publication shall be submitted so as to be included in the next issue of the company’s periodical of corporate announcements as well as in a daily news medium published by the Commission, or one that is recognized and approved by the Commission, used for the publication of information received from actors of the capital markets, and also by way of the means specified in Paragraph b) of Subsection (5) of Section 37.

Publication of Acquisition of a Major Holding

Section 67.

(1) Whenever a participating interest is acquired in a public limited company reaching five per cent of its capital, and all subsequent share acquisitions in five per cent stages (ten, fifteen, twenty etc.), this shall be notified by the acquiring party within two calendar days to the Commission and to the board of directors of the company in which the share is acquired.

(2) Regarding the percentage scales defined in Subsection (1) all participating interests acquired previously by the same person and the last acquisition shall apply on the aggregate.

(3) The obligation of notification stipulated in Subsection (1) applies also when a person's participating interest in a company's capital is reduced by the same percentages.

(4) The notification shall contain

a) the name, address (residence) and registration number of the acquiring party or the seller, or in respect of an agreement defined in Subsection (2) of Section 65, of the parties to the agreement,

b) the percentage of interest acquired,

c) an indication of the relationship, next of kin or otherwise, stipulated in Subsection (2) of Section 65.

d) the date of acquisition or alienation of interest.
(5) When filing the notification the acquiring party must also submit it for publication at the same time. Where participating interest is acquired in the manner defined in Subsection (2) of Section 65, the obligation of notification and publication applies to all parties concerned.

(6) Any acquisition of participating interest above fifty per cent in a company's capital shall be notified and published in compliance with Subsections (1) and (5) only when the extent of holding is increased to seventy-five and to ninety per cent. This also applies to the notification and publication of reduction of holding in the same measure.

(7) The obligation of notification and publication defined in Subsections (1) and (5) applies also with respect to any agreement for the acquisition of participating interest at a later date or subject to certain conditions stipulated therein. The deadline for notification applies from the effective date of the agreement and the notification and the publication shall indicate the date and the conditions from and upon which, the participating interest becomes operative.

(8) The obligation of notification and publication defined in Subsections (1) and (5) may be satisfied by the parent company in place of the acquiring party.

(9) If the obligation of notification and publication defined in Subsections (1), (5) and (7) are not satisfied, membership rights in the company in question cannot be exercised until the notification is submitted.

(10) A public limited company may prescribe in its bylaws that the obligation of notification and publication applies in case of the acquisition and reduction of participating interest at a two per cent margin, or lower.

(11) Following notification, an acquisition of a major holding shall be published forthwith, or within nine days maximum, in all Member States of the European Union where the company’s shares are officially listed on a recognized market.

**Acquisition of a Major Holding by way of Statutory Public Purchase Offer**

**Section 68.**

(1) Any acquisition of major holding in a public limited company in excess of thirty-three per cent shall be subject to a public purchase offer (hereinafter referred to as 'purchase offer') that is to be approved by the Commission in advance. If there is no shareholder in the public limited company, other than the bidder, holding more than ten per cent of the voting rights, whether directly or indirectly, a purchase offer must be submitted if the extent of holding that is to be achieved by the acquisition exceeds twenty-five per cent.

(2) If participating interest is acquired in excess of the measure defined in Subsection (1)
   a) by any conduct other than an outright bid submitted by the buyer, or
   b) by purchase option or repurchase option, or a call option on a forward purchase agreement,
   c) within the framework of a procedure conducted by a government holding company as defined by law, or
   d) under an agreement defined in Subsection (2) of Section 65,

   it shall be notified by the acquiring party in compliance with Subsection (1) of Section 67, with the percentage and title of acquisition of participating interest indicated, and shall be submitted for publication at the same time. The purchase offer shall be filed within fifteen days from the date of notification of the acquisition.

(3) When participating interest is acquired under Subsection (2) of Section 65, all parties to the agreement shall be subject to file the purchase offer jointly, unless the parties agreed to confer powers upon a particular party to submit the purchase offer. An agreement to designate a party to submit the purchase offer shall not relieve the parties from the obligation to file a purchase offer.

(4) All deals for the acquisition of a participating interest by way of purchase offer shall be handled by an investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81.
Section 69.

(1) The bidder and the investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 shall submit the purchase offer to the Commission for approval; they shall simultaneously send the purchase offer and its appendices to the board of directors of the target company and submit the purchase offer - as it is filed for approval - for publication. The publication shall expressly indicate that the Commission’s authorization for the purchase offer is pending or, where applicable, that the bidder has filed for competition oversight proceedings.

(2) All purchase offers shall contain
a) the name (corporate name) and residence or business address of the bidder;
b) the measure of participating interest (direct or indirect) held in the target company by the bidder or by all persons who are parties to the agreement defined in Subsection (2) of Section 65, and also by any close relative of the bidder, and the numbers and the series of shares held by such persons;
c) the monetary value of the consideration offered for the shares and the composition of such consideration (ratio of cash and securities and the description of securities if any offered, etc.), and the formula for the calculation and the terms of settlement of the consideration, including a reference to the regulations specified under Subsections (6)-(8) of Section 74;
d) the deadline of the validity of the purchase offer;
e) the designated place and method for accepting the purchase offer (hereinafter referred to as ‘declaration of acceptance’), and the conditions under which a proxy or an intermediary may be involved;
f) the corporate name and address of the participating investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81;
g) the venue where the operating plan defined in Subsection (4) and the report of the business operations of the bidder is deposited for inspection;
h) if the bid is submitted jointly, the ratio of distribution of the shares specified in the declaration of acceptance among the bidders;
i) a statement for reserving the right to withdraw the purchase offer for the event if, pursuant to the declarations of acceptance, the participating interest to be acquired is less than fifty per cent.

(3) No purchase offer shall be phrased or arranged so as to breach the principle of equal treatment relative to the declaration of acceptance in respect of shareholders.

(4) The bidder shall be required to submit an operating plan that is to contain the compulsory elements specified in Schedule No. 8 concerning the future of the target company, and a business report if the bidder is an economic organization, whether resident or non-resident.

(5) A written declaration of liability shall be supplied by the bidder and the investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 and enclosed with the bidder’s business report. The declaration shall stipulate that all data and information contained in the business report are true and correct and that it contains all of the information necessary to make an informed judgment of the bidder and the purchase offer to which it pertains. The bidder and the investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 shall be subject to joint and several liability for any and all damages resulting because they have supplied misleading information in the business report or concealed material information in connection with the business report.

(6) The bidder and the investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 shall enclose the following with the application for approval of the purchase offer:
a) the operating plan and the business report,
b) proof of bidder having sufficient funds available to cover the consideration payable for the shares to which the purchase offer pertains, and
c) if the purchase offer is submitted in the manner defined in Subsection (2) of Section 65 and it is not submitted by the parties jointly, the agreement that stipulates the party empowered to submit the bid,
d) if the purchase offer is submitted in the manner defined in Subsection (2) of Section 68, the contract for the purchase or repurchase option, or for the call option on the forward purchase of shares.

(7) The purchase offer may stipulate payment
   a) in cash,
   b) in Hungarian government securities or in government securities issued by another OECD Member State,
   c) by bank guarantee issued by a resident credit institution or credit institution that is established in another OECD Member State.

Section 70.

(1) The Commission shall resolve the application for approval of a purchase offer within fifteen days from the date when submitted, or if the application is incomplete or insufficient, shall request the missing or additional information to be submitted within maximum five days. The Commission shall resolve such updated applications within five days.

(2) The Commission cannot deny approval if the purchase offer and its appendices are in compliance with the requirements laid down in this Act. If the Commission fails to introduce its decision concerning an application within fifteen, or within five days if updated, approval shall be considered granted.

(3) The Commission shall be required to convey its decision to the bidder and to the board of directors of the target company.

(4) The bidder shall submit the Commission's decision and the purchase offer for publication forthwith upon receipt of the decision or upon the expiration of the deadline prescribed for approval, in which to indicate the first and last day of the period within which the declaration of acceptance is to be introduced.

(5) The period within which the declaration of acceptance is to be introduced shall be minimum thirty and maximum forty-five days. The first day of the period within which the declaration of acceptance is to be introduced cannot precede the second day following the publication defined in Subsection (4) and shall not be later than the fifth day following publication.

(6) If a purchase offer is published at various times by way of various mediums, the deadlines regarding the purchase offer shall apply from the date of last publication.

(7) The bidder and the parties to an agreement defined in Subsection (2) of Section 65 - in respect of natural persons, their close relatives holding any participating interest in the target company - and their affiliated companies (hereinafter referred to collectively as ‘affiliated persons’) cannot engage in any deal for the transfer, alienation or encumbrance of the shares to which the purchase offer pertains until the last day of the period within which the declaration of acceptance is to be introduced, with the exception of a share transfer agreement concluded under the purchase offer. The investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 cannot engage in any deal on his own account concerning the shares to which the purchase offer pertains until the last day of the period within which the declaration of acceptance is to be introduced, with the exception of a share transfer agreement concluded under the purchase offer.

(8) Under justified circumstances the Commission may extend the deadline for the declaration of acceptance stipulated in the purchase offer on one occasion, by no more than fifteen days. The bidder shall be liable to publish the notification on such extension before the expiration of the original deadline.

Section 71.

(1) The purchase offer shall be presented for all shares attaching voting rights of the target company, and to all shareholders having voting rights.

(2) The bidder may modify the bid price quoted in the purchase offer until the last day of the period stipulated for acceptance on condition that the new price expressed in monetary terms is higher than the price quoted in the purchase offer and that the bidder publishes it. The new price also applies to the declarations of acceptance made before the modification was published.
Section 72.

(1) The consideration quoted in the purchase offer for the shares in question cannot be less
   a) - in respect of listed securities - than the average stock market price calculated by the trading index
      for the one-hundred-and-eighty-day period preceding the date when the purchase offer was submitted to
      the Commission for approval, and the highest price contracted for the transfer of the target company's
      shares by the bidder and affiliated persons within the one-hundred-and-eighty-day period preceding the
      date when the purchase offer was submitted, or the aggregate of the call price and the fee of a purchase or
      repurchase option, whichever is higher;
   b) - in respect of unlisted securities - than the average price calculated by the trading index for the one-
      hundred-and-eighty-day period preceding the date when the purchase offer was submitted to the
      Commission for approval, and the highest price contracted for the transfer of the target company's shares
      by the bidder and affiliated persons within the one-hundred-and-eighty-day period preceding the date
      when the purchase offer was submitted, or the aggregate of the call price and the fee of a purchase or
      repurchase option, whichever is higher.

(2) If the consideration quoted for the shares cannot be determined according to Subsection (1), it
    cannot be less than the lowest amount that can be determined by the formula contained in the purchase
    offer and approved by the Commission.

Section 73.

(1) If before the publication of the purchase offer as specified under Subsection (1) of Section 69, the
    board of directors of the target company - upon the bidder’s request - has provided any information to the
    bidder or his proxy concerning the operations of the company, the bidder, his proxy, and the investment
    service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section
    81 shall handle such information as strictly confidential in compliance with the regulations on business
    secrets, securities secrets and insider trading.

(2) Following receipt of the purchase offer the board of directors of the target company cannot bring
    any decision inside the period of validity for acceptance that would interfere with the acquisition of
    participating interest, such as to increase the share capital or to buy up its own shares. If the board of
    directors of the target company was informed concerning the intent to purchase before the purchase offer
    is conveyed as defined in Subsection (1) of Section 69, this provision shall apply as of the date when the
    information was received.

(3) The board of directors of the target company shall respond to the purchase offer and communicate
    such response to the shareholders - at the place where the operating plan and the business report is
    deposited for inspection - before the first day of the period within which the declaration of acceptance is to
    be introduced. The statutory components of the response of the board of directors are specified in
    Schedule No. 9. If the Commission approved the purchase offer with some modification, the board of
    directors may revise its response if deemed necessary.

(4) The board of directors of the target company may commission an independent financial expert to
    assess the purchase offer at the company's expense. The expert's assessment shall be published in the same
    manner as the board of directors' response. The board of directors shall notify the shareholders concerning
    the publication of the expert assessment by way of announcement.

Section 74.

(1) Subsequent to the first day of the period within which the declaration of acceptance is to be
    introduced, any holder of shares to which the purchase offer pertains may declare his intention to transfer
    all or a fraction of his shares specified in the declaration of acceptance under the terms and conditions set
    forth in the purchase offer.
(2) The declaration of acceptance can be made in person or by way of proxy. Any and all liability for making the declaration of acceptance by way of proxy or another medium (i.e. postal service) shall lie with the person making the declaration.

(3) The declaration of acceptance cannot be withdrawn.

(4) The bidder must purchase all shares offered, unless the participating interest to be acquired by the bidder in the target company would be less than fifty per cent pursuant to the declarations of acceptance, and the purchase offer contains a cancellation clause for this instance. The principle of equal treatment shall apply among shareholders when exercising their right of acceptance of the purchase offer.

(5) A share transfer agreement between the bidder and a shareholder who has filed a declaration of acceptance shall become effective on the last day of the period within which the declaration of acceptance is to be introduced, unless there is a competition oversight proceeding pending on this day, in which case the agreement shall become effective on the day when the competition board's authorization is granted.

(6) The bidder shall settle payment within five business days following the last day of the period within which the declaration of acceptance is to be introduced, or on the day when the competition board's authorization is granted in conclusion of a competition oversight proceeding.

(7) If the consideration is not cash, in part or entire, the person filing the declaration of acceptance may request in the declaration for the bidder to pay the consideration in cash only.

(8) If payment is settled after the date specified in Subsection (6), the bidder shall be liable to pay a default penalty. If payment is not effected within thirty days following the deadline specified in Subsection (6) the person filing the declaration of acceptance may cancel the contract. If the contract is cancelled by the seller the bidder shall so notify the Commission within two working days. Payment of the default penalty or canceling the contract shall have no effect on the Commission's powers to impose the sanctions defined in this Act for any violation of the regulations pertaining to payment of the consideration.

**Counter-offer**

*Section 75.*

(1) Any person shall be entitled to submit another purchase offer before the fifteenth day preceding the period within which the declaration of acceptance is to be introduced (hereinafter referred to as 'counter-offer'). Counter-offers shall be subject to the provisions on purchase offers, with the exception specified in Subsections (2)-(4).

(2) A counter-offer may be published, and shall be approved by the Commission, if it is more favorable to the shareholders as compared to the purchase offer or a previous counter-offer. A counter-offer is deemed more favorable if the consideration quoted in monetary terms is at least five per cent higher. If another counter-offer is submitted it shall be deemed more favorable if the consideration quoted in monetary terms is at least another five per cent higher than that quoted by the previous counter-offer.

(3) If a new counter-offer differs from the previous offer (counter-offer) only in terms of the consideration quoted, the Commission shall decide on its approval within three (3) days.

(4) When the counter-offer is approved and published according to Subsection (4) of Section 70 the previous offer (counter-offer) and the relevant declaration of acceptance shall be considered invalid.

**Conclusion of a Bid Procedure**

*Section 76.*

(1) The bidder or the investment service provider licensed to engage in the activities specified in Paragraph e) of Subsection (2) of Section 81 shall notify the Commission concerning the outcome of the purchase offer within two (2) calendar days following the last day of the period within which the declaration of acceptance is to be introduced and shall simultaneously publish it in accordance with the
regulations on the publication of purchase offers. The bidder shall notify the Commission regarding settlement or non-settlement of payment of the consideration within two (2) calendar days of the payment deadline; the notification shall include an explanation in the case of non-settlement or partial settlement.

(2) If having acquired more than ninety (90) per cent of the voting rights in conclusion of the purchase offer and if the consideration is settled in full, the bidder shall have an option to purchase the remaining shares within thirty (30) days from the date of publication of the notification defined in Subsection (1). The consideration payable under the purchase option cannot be less than the consideration in effect for the purchase offer, or the amount of equity capital per share, whichever is higher. The amount of equity capital per share is determined on the basis of the last audited annual account.

(3) The party acquiring participating interest shall notify the Commission within two (2) calendar days if wishing to exercise the purchase option, and shall publish it at the same time. The notification and the publication shall specify the price of the shares and the place, date and terms of exchange of the shares and the consideration.

(4) The target company shall retire the shares which were not delivered in due time. This procedure shall be subject to the provisions of Subsection (2) of Section 263 of the Companies Act.

(5) If the bidder’s holding in the target company exceeds ninety (90) per cent of the voting rights when closing out the purchase offer, the bidder must purchase the remaining shares if so requested by the owners of these shares within thirty (30) days following the day on which the announcement under Subsection (1) was published. The minimum amount of consideration payable under such purchase obligation shall be defined in accordance with Subsection (2).

Section 77.

Where a participating interest is acquired by ways other than what is defined in Sections 68-76 of this Act and in Subsection (3) of Section 82 of Act L of 2001, membership rights in the target company cannot be exercised and the party acquiring such interest must alienate the shares acquired by way of evasion or circumvention of the regulations governing the acquisition of participating interest within sixty (60) days of the date of acquisition or of the decision of the Commission. Membership rights in the target company under the shares that are not affected by the obligation of alienation may be exercised only after the alienation of the shares subject to the obligation of alienation.

Section 78.

If in consequence of the purchase offer not all shares bid for are transferred, yet the bidder has acquired participating interest in the measure specified in Subsection (1) of Section 68, the bidder is not required to submit another purchase offer if proceeding to acquire additional interest. If in consequence of the purchase offer the interest acquired is below the measure specified in Subsection (1) of Section 68, the bidder is required to submit another purchase offer if proceeding to acquire additional interest in excess of the measure specified in Subsection (1) of Section 68.

Acquisition of a Major Holding by way of Voluntary Purchase Offer

Section 79.

(1) Participating interest may be acquired by way of purchase offer if it is not rendered mandatory (hereinafter referred to as ‘voluntary purchase offer’). The acquisition of influence by way of voluntary purchase offer shall be subject to the provisions on statutory purchase offers, with the exception that the provision on the prescribed measure of purchase offer laid down in Section 71 and the rule stipulated in Subsections (3) and (4) of Section 73 shall not apply, and no counter-offer may be submitted.

(2) If the number of shares offered in the declarations of acceptance is greater than the number to which the purchase offer pertains, the shares transferred must be commensurate with the face value of the shares.
(3) No voluntary purchase offer may be submitted after the publication of a statutory purchase offer as defined in Subsection (1) of Section 69 and before the last day of the period within which the declaration of acceptance is to be introduced.

Section 80.

(1) Any deviation from the provisions of this Chapter shall be made only if permitted by law.
(2) The obligation of notification and publication prescribed in this Chapter shall not affect the obligation of notification and publication specified in the Companies Act.
(3) Acquisition of listed shares may be rendered conditional upon additional requirements stipulated in the bylaws of the stock exchange approved by the Commission.

PART FOUR
INVESTMENT SERVICE PROVIDERS, COMMODITIES BROKERS, AND AUTHORIZATION OF THEIR ACTIVITIES

Chapter VIII
INVESTMENT SERVICES AND COMMODITY EXCHANGE SERVICES

Section 81.

(1) Investment services shall be understood to mean the for-profit operations involving the services listed below in connection with any one or more of the investment instruments specified under Section 82, transacted in HUF or any other currency:
   a) financial intermediation;
   b) trading activities;
   c) management of personal portfolios on behalf of investors (portfolio management);
   d) subscription guarantee;
   e) agency activities;
   f) services provided in connection with the marketing of securities and other related services.
(2) Activities auxiliary to investment services shall be understood to mean the for-profit performance of the following activities:
   a) safe-keeping of securities, including accounts and other records;
   b) custodian services for securities;
   c) providing investment loans to investors;
   d) financial consulting services provided to corporations regarding capital structure and business strategy, and services in connection with mergers and takeovers;
   e) services provided in connection with the acquisition of participating interest in limited liability companies by way of public offer;
   f) investment counseling;
   g) account services to clients;
   h) securities accounts;
   i) securities lending and/or borrowing.

Section 82.

Investment instruments are:
   a) transferable securities;
   b) money-market instruments;
c) futures transactions involving securities, foreign exchange, indices and their derivatives, including equivalent cash-settled instruments;
d) forward interest-rate agreements;
e) interest-rate, currency and equity swaps;
f) options to acquire or dispose of securities, foreign exchange, indices and their derivatives, including equivalent cash-settled instruments.

Section 83.

(1) Commodity exchange services shall be understood to mean the for-profit operations involving the services listed below in connection with the instruments specified under Section 84, transacted in HUF or any other currency:
a) financial intermediation;
b) trading activities;
c) agency activities.

(2) Commodities brokers may provide the service specified in Paragraph g) of Subsection (2) of Section 81 if it pertains to commodity exchange services.

Section 84.

Of exchange-traded instruments, commodity exchange services may involve commodities, including warehouse warrants and dockets detached from warehouse warrants, marketable rights, and their derivatives.

Investment Service Providers and Commodities Brokers

Section 85.

(1) Unless otherwise prescribed by law, investment services may be provided by investment enterprises and credit institutions.

(2) Investment enterprise shall be understood to mean securities intermediaries, securities traders and securities investment trusts (hereinafter referred to as ‘investment firms’).

(3) Investment enterprises are compelled to provide the service referred to in Paragraph a) of Subsection (1) of Section 81.

(4) Foreign investment service providers shall be allowed to provide investment services in Hungary only through their branch offices, with the exception specified in Subsection (5).

(5) The investment service provider established in a Member State of the European Union shall be allowed to engage in cross-border services.

Section 86.

(1) Securities intermediaries may provide the investment services defined in Paragraphs a), e) and f) of Subsection (1) of Section 81 and may engage in activities auxiliary to investment services as defined in Paragraphs a), b), d) and f)-i) of Subsection (2) of Section 81.

(2) A securities trader may provide the investment services defined in Paragraphs a)-c), e) and f) of Subsection (1) of Section 81 and may engage in activities auxiliary to investment services as defined in Paragraphs a), b), and d)-i) of Subsection (2) of Section 81.

(3) Investment firm shall be understood to mean an investment enterprise authorized to engage in the activities specified under Paragraph d) of Subsection (1) and Paragraph c) of Subsection (2) of Section 81.
(4) A foreign-registered investment enterprise may engage in the activities defined under Sections 81 and 83 through its branch office if authorized by the supervisory authority of the country where registered for the activities in question.

Section 87.

(1) Organizations and persons other than investment enterprises may perform investment services and may engage in activities auxiliary to investment services subject to the provisions of Subsections (2)-(8) below.

(2) Banks may perform the full range of investment services and activities auxiliary to investment services.

(3) Cooperative credit institutions may provide the investment services defined in Paragraph e) of Subsection (1) of Section 81 and may engage in activities auxiliary to investment services as defined in Paragraphs a), b), d) and f) of Subsection (2) of Section 81.

(4) A specialized credit institution may provide investment services and engage in activities auxiliary to investment services solely as prescribed in specific other legislation governing specialized credit institutions.

(5) Private entrepreneurs (hereinafter referred to as 'individual dealers') may provide the investment services specified in Paragraph b) of Subsection (1) of Section 81 only on the exchange, if it concerns the investment instruments specified in Paragraphs a), b), d) and f) of Section 82.

(6) The investment services referred to in Paragraph c) of Subsection (1) of Section 81 may also be provided by a financial enterprise that is authorized to engage in either of the activities specified in Paragraphs l) and n) of Subsection (1) of Section 3 of the CIFE.

(7) The investment services specified in Paragraph e) of Subsection (1) of Section 81 and the activities auxiliary to investment services Paragraphs d) and f) of Subsection (2) of Section 81 may be performed by business associations and cooperatives which are not licensed as investment service providers.

(8) The agency activities referred to in Paragraph e) of Subsection (1) of Section 81 may be performed by private entrepreneurs as well, on condition that it does not involve the handling of the client's money or other assets, nor the underwriting of any commitments on his own account but on behalf of an investment service provider.

(9) The NBH, the Treasury and ÁKK Rt. may engage in the investment services and the activities auxiliary to investment services specified under Section 81 as prescribed in specific other legislation governing their respective activities.

Section 88.

(1) In addition to investment services and activities auxiliary to investment services, an investment enterprise may only perform the following services subject to the restrictions described in this Act:

a) intermediation and trading activities involving bills of exchange,

b) commodity exchange services,

c) keeping share registers,

d) to act as an attorney in fact on behalf of a shareholder as a nominee,

e) intermediation of financial services,

f) intermediation of insurance services,

g) asset management services for voluntary mutual insurance funds [Paragraph l) of Subsection (1) of Section 3 of the CIFE], and

h) asset management services for private pension funds [Paragraph n) of Subsection (1) of Section 3 of the CIFE]

i) financial services related to client accounts and may provide facilities for the subscription of securities.
(2) The services referred to in Paragraph h) of Subsection (1) may only be performed by investment enterprises which are limited by shares.

Section 89.

(1) Commodity exchange services may be provided by commodities brokers and investment service providers.

(2) Commodities brokers shall perform
   a) commodity exchange services as their exclusive activity, or
   b) if commodity exchange services are related to their main activities.

(3) Exclusivity shall not involve warehousing, transportation and freight forwarding operations performed in connection with the settlement of commodities transactions.

(4) The agency activities referred to in Paragraph c) of Section 83 may be performed by business associations and cooperatives which are not licensed as commodities brokers or investment service providers. It may be performed by private entrepreneurs as well, on condition that it does not involve the handling of the client's money or other assets, nor the underwriting of any commitments on his own account but on behalf of a commodities broker or an investment service provider.

(5) A foreign-registered company may engage in Hungary in commodity exchange services through its branch office if authorized by the supervisory authority of the country where registered for the same activities.

Organizational Regulations

Section 90.

(1) In respect of investment enterprises and commodities brokers operating as business associations the provisions of the Companies Act shall apply; for the commodities brokers operating in the form of cooperatives the provisions on cooperatives shall apply; and in respect of foreign companies operating as branch offices the provisions of the FCA shall apply, subject to the exceptions laid down in this Act.

(2) An investment enterprise may operate exclusively as a share company with registered shares or as a branch office, and commodities brokers may operate in the form of share company, limited liability company, cooperative or branch office.

(3) The minimum amount of subscribed capital prescribed for investment enterprises is
   a) HUF fifty million in respect of securities intermediaries,
   b) HUF two hundred million in respect of securities traders,
   c) HUF one billion in respect of investment firms.

(4) If the amount of assets of private pension funds managed by an investment enterprise is HUF two billion or more, its equity capital shall be at least HUF two hundred and fifty million plus one per cent of the amount in excess of the said threshold of HUF two billion in private pension fund assets. If the equity capital of the investment enterprise is HUF one billion or more, any increase in the private pension fund assets it manages shall not entail any increase in its equity capital.

(5) The minimum amount of subscribed capital prescribed for commodities brokers is
   a) HUF twenty million in respect of the commodities brokers operating as a share company or as a branch office,
   b) HUF ten million in respect of the commodities brokers operating as a limited liability company or as a cooperative.

(6) The subscribed capital of investment enterprises must be paid up in cash only. Any increase in the subscribed capital of an investment enterprise by way of transfer of funds from other assets apart from its subscribed capital, and when the subscribed capital is determined in connection with merger, fusion or takeover shall be treated as paid up in cash.
(7) The subscribed capital may be deposited exclusively at a credit institution which is not participating in the foundation, and/or in which the founder has no participating interest and/or which has no participating interest in the founder.

(8) As regards the investment enterprises and commodities brokers operating as branch offices, subscribed capital shall be understood to mean endowment capital.

(9) The endowment capital requirement shall not apply to the branch office of an investment enterprise that is established in another Member State of the European Union.

Chapter IX

LICENSING

Licensure of Activities (Operations), Suspension and Revocation of a License

Licensure of Investment Service Activities and Commodity Exchange Service Activities

Section 91.

(1) With the exceptions specified under Subsections (3) and (4), the activities defined in Sections 81 and 83 shall be subject to licensing by the Commission as described in this Act.

(2) The Commission shall grant a license for the various activities separately, or shall issue a single license for several activities. The Commission may issue a license for a specific period and/or subject to specific conditions, for specific activities subject to territorial restrictions. A license may also be issued specific to certain branches of business and/or products pertaining to investment services and commodity exchange services.

(3) No license is required for agency activities, on condition that it does not involve the handling of the client’s money or other assets, nor the undertaking of any commitments on the agent’s own account but on behalf of a commodities broker or an investment service provider. In this case, the investment service provider or the commodities broker shall register the agent in question with the Commission. An agent may not use any subcontractors.

(4) Natural persons may engage in the service defined in Paragraph b) of Subsection (1) of Section 81, only on the exchange market, without being licensed by the Commission, if it involves only the investment instrument defined in Paragraph c) of Section 82, and if it is permitted by the regulations of the exchange.

(5) The license defined in Subsection (1) is not required for cross-border services provided by an investment service provider established in another Member State of the European Union, nor for the services provided by the Hungarian branch of such an investment service provider if licensed for the same activities by the supervisory authority where it is established.

Section 92.

(1) Operations to provide investment services and commodity exchange services may commence on condition that
   a) all personnel criteria has been satisfied;
   b) all technical equipment, information technology and security systems are installed;
   c) the required internal regulations concerning organizational structure, operations, administration, accounting, records and control systems have been adopted
   in compliance with the requirements laid down in this Act and in specific other legislation.

(2) The procedures, systems and solutions adopted by investment service providers and commodities brokers must be sufficient to permit continuous monitoring and control of
   a) the records and accounts of securities, liquid assets and exchange-traded instruments of clients,
(3) Investment service providers and commodities brokers shall maintain consistency and transparency in the application of their internal regulations.

(4) The accounting, registration and informatics systems of investment service providers and commodities brokers must have sufficient facilities
   a) to provide information on their financial situation on a daily basis,
   b) to provide information at any given time concerning the balance of clients moneys, investment instruments and exchange-traded instruments entrusted to them, and
   c) to keep records of data disclosed as prescribed by law.

(5) All investment service providers and commodities brokers must have a main office in Hungary from which to direct their operations.

Section 93.

The license applications of investment service providers and commodities brokers shall contain the enclosures illustrated in Schedule No. 10 and Schedule No. 22, respectively.

Section 94.

The Commission shall request the opinion of the competent supervisory authorities of other Member States of the European Union concerned prior to issuing a foundation permit to an investment firm or commodities broker if the investment firm or commodities broker requesting the permit:
   a) is a subsidiary of an investment firm, credit institution or insurance company established in another Member State of the European Union;
   b) is a subsidiary of the parent company of an investment firm, credit institution or insurance company established in another Member State of the European Union;
   c) has an owner, whether a natural or legal person, with a dominant influence in an investment firm, credit institution or insurance company that is established in another Member State of the European Union.

Section 95.

(1) The Commission shall decline to issue a license if the applicant fails to comply with the requirements laid down in this Act and in other legal regulations or if he fails to provide sufficient proof of compliance with such requirements, or if any information supplied by the applicant is misleading or untrue.

(2) In respect of branch offices, the Commission shall decline to issue a license if
   a) there is no valid and effective international cooperation agreement, based on mutual recognition of supervisory authorities which covers the supervision of branch offices, between the Commission and the supervisory authority competent for the place where the applicant is registered,
   b) the country in which the applicant is established does not have legal regulations on money laundering that conform to the requirements prescribed under Hungarian law,
   c) the applicant does not have adequate data management regulations that conform to the requirements prescribed under Hungarian law,
   d) the applicant fails to supply a statement in which it offers full guarantees for the liabilities incurred by its branch office under its corporate name,
e) the applicant fails to submit the permit for the foundation of a branch office issued by the supervisory authority competent for the place where he is registered, and/or its declaration of approval or acknowledgment,
f) the legal system of the country where the applicant is established fails to guarantee the prudent and sound management of service providers,
g) the applicant's main office is not in the country where he is established.

Section 96.

(1) The Commission shall revoke the license it has issued to authorize operations if
a) the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time;
b) the Commission has revoked the license of a credit institution that was issued under the CIFE, or the license of an investment fund manager that was issued under Section 229;
c) the investment enterprise fails to pay any of its undisputed debts within five days of the date on which they are due or its holdings (assets) do not provide coverage for satisfying the known claims of creditors;
d) the commodities broker's entitlement for trading in the exchange has been terminated;
e) the license holder fails to commence within six months the activities to which the license pertains, or has not engaged in such activities for more than six months;
f) the license holder retires from the activity to which the license pertains;
g) the license holder repeatedly or seriously violates the provisions laid down in this Act and in specific other legislation regarding the activity to which the license pertains, or the obligations specified in the regulations of the Investor Protection Fund;
h) the license of the founder of a branch office has been revoked by the supervisory authority responsible for the place where the founder is established;
i) the investment service provider or the commodities broker fails to comply with any recapitalization obligation within the deadline prescribed by the Commission;
j) the investment service provider fails to comply with any capital adequacy requirement within the deadline specified by the Commission;
k) it was obtained by misleading the Commission or through any other illegal conduct.

(2) In the cases referred to in Paragraphs e) and f) of Subsection (1) the Commission shall revoke the license it has issued to authorize operations when the license holder has settled all undisputed debts owed to clients, or if his contractual liabilities are carried forward by commitment from another investment service provider or commodities broker as the case may be. The Commission may stipulate certain conditions and requirements, which must be satisfied before the investment service provider or the commodities broker is permitted to terminate operations.

(3) The Commission may suspend the license it has issued to authorize operations if the conditions and requirements based on which it was issued are no longer satisfied, however, they can be remedied within a reasonable period of time.

Personnel Criteria

Section 97.

(1) The investment enterprises operating as incorporated companies limited by shares shall be managed under contract of employment by at least two officers with no prior criminal record, having three years of experience in the field, and one of whom must be a resident.

(2) The executive management of investment enterprises operating in the form of branch offices shall consist of at least one resident Hungarian national, who has had a registered residence in Hungary for at least one year.
(3) Investment service providers shall appoint a person to operate the various sectors of their investment services who has no prior criminal record, has the appropriate higher education degree and has at least two years of professional experience.

(4) Investment service providers and the commission agents of investment service providers [Paragraph a) of Point 103 of Subsection (1) of Section 5] shall engage under contract of employment sales representatives and business representatives who are listed in the Commission's register of sales representatives and business representatives.

(5) Investment enterprises providing investment consultancy, credit institutions, investment fund managers, business associations and cooperatives shall engage under contract of employment investment consultants who are listed in the Commission's register of investment consultants.

(6) Candidates shall meet the following criteria in order to be admitted into the Commission’s register of sales representatives, business representatives and investment consultants:
   a) must have no prior criminal record;
   b) must not be subject to a final court judgment barring them from practicing their profession;
   c) must have the education specified in specific other legislation;
   d) must not have received any punishment from the Commission more serious than a reprimand within the previous five years.

(7) If a registered sales representative, business representative or investment consultant subsequently fails to meet one of the criteria specified under Subsection (6), the person referred to in Subsections (4)-(5) shall notify the Commission accordingly, immediately upon gaining knowledge. Upon receipt of such notification, the Commission shall forthwith disbar the sales representative, business representative or investment consultant in question from the register.

(8) The Commission’s register of sales representatives, business representatives and investment consultants shall be treated as public information.

Section 98.

(1) Commodities brokers shall appoint a person to direct business operations who has no prior criminal record and at least two years of professional experience.

(2) Commodities brokers and the commission agents of commodities brokers [Paragraph a) of Point 103 of Subsection (1) of Section 5] shall engage sales representatives and business representatives in employment relationship whether as paid employees or in a self-employed capacity if listed in the Commission's register of sales representatives and business representatives.

(3) Candidates shall meet the following criteria in order to be listed in the Commission's register of sales representatives and business representatives:
   a) must have no prior criminal record;
   b) must not be subject to a final court judgment barring them from practicing their profession;
   c) must have the education specified in specific other legislation;
   d) must not have been disciplined by the Commission or the exchange within the previous three years for any repeated or serious violation of legal provisions or exchange regulations concerning commodities brokers.

(4) If a registered sales representative or business representative subsequently fails one of the criteria specified under Subsection (3), the person referred to in Subsection (2) shall notify the Commission accordingly, immediately upon gaining knowledge. Upon receipt of such notification, the Commission shall forthwith remove the sales representative or business representative in question from the register.

(5) The Commission’s register of sales representatives and business representatives shall be treated as public information.

Section 99.
(1) The persons referred to in Sections 97 and 98 may be employed or appointed only if they are not subject to the disqualifying factors listed under Subsection (1) of Section 357.

(2) Within the context of Section 97, the criteria of experience may be satisfied by employment in the field of investments and finances
   a) at an investment enterprise;
   b) at a financial institution;
   c) at a stock exchange or the commodities exchange;
   d) at the Commission;
   e) at a corporation providing clearing and settlement services;
   f) at an investment fund manager;
   g) at the NBH;
   h) at the ÁKK Rt. or the Treasury;
   i) at an administrative agency as officer, public officer or employee.
   j) at a commodities broker.

(3) Professional experience earned in a foreign country may be accepted if gained through employment in an institution or international financial institution equivalent to the organizations specified under Subsection (2).

(4) Within the context of Section 98 the criteria of experience, apart from what is contained in Subsections (2) and (3), may be satisfied by employment at a commodities brokers.

(5) In the application of Section 97 appropriate higher education shall be understood to mean a degree in law, government administration, economics, business or finances received at a domestic or foreign university or college, or a certificate of auditors, bankers or investment analysts.

**Further Requirements for Licensure**

*Section 100.*

(1) Applicants for licensing the safe-keeping of securities on custody accounts and the records incidental to such accounts must also
   a) have the necessary personnel, equipment and facilities prescribed by specific other legislation in order to ensure adequate safety, and
   b) internal regulations concerning security, account management and depository procedures.

(2) Applicants for licensing the activity referred to in Paragraph c) of Subsection (2) of Section 81 are required to join the central credit information system [Paragraph l) of Subsection (2) of Section 18 of the CIFE].

*Section 101.*

(1) Applicants for licensing portfolio management activities must have
   a) the necessary personnel, equipment and facilities as specified in Schedule No. 11;
   b) operating regulations prepared as in the layout illustrated in Schedule No. 12;
   c) procedural regulations as defined in Schedule No. 13.

(2) A certificate from the Investor Protection Fund shall be attached with license applications verifying membership, or in proof of having submitted an application and payment of the fees for admission.

(3) The procedures, systems and solutions adopted by portfolio managers shall be sufficient to permit administration of the records and accounts of investment instruments, liquid assets, and exchange-traded instruments held under the various portfolios separately from the portfolio manager's own investment instruments, liquid assets and exchange-traded instruments.

(4) The accounting, registration and informatics systems of portfolio managers must have sufficient facilities
   a) to provide information on their financial situation on a daily basis,
b) to provide information at any given time concerning the balance of investment instruments, liquid assets and exchange-traded instruments held under the various portfolios, and,

c) to continuously monitor compliance with legal provisions and with their own internal regulations, and

d) to keep records of data disclosed as prescribed by law.

Protection of Information Systems

Section 101/A.

(1) Investment service providers engaged in the investment services referred to in Paragraph a)-b) and d)-e) of Subsection (1) of Section 81 and/or in the activities auxiliary to investment services set out in Paragraphs a)-b) of Subsection (2) of Section 81, the commodities brokers engaged in the activity defined in Subsection (1) of Section 83 (hereinafter referred to collectively as “service providers”), and corporations providing clearing and settlement services are required to set up a regulatory regime concerning the security of their information systems used for providing their respective services, and to provide adequate protection for the information system consistent with existing security risks. The regulatory regime shall contain provisions concerning requirements of information technology, and the assessment and handling of security risks in the fields of planning, purchasing, operations and control.

(2) Service providers and corporations providing clearing and settlement services shall review and update the security risk assessment profile of the information system whenever necessary, or at least every other year.

(3) The organizational and operating rules shall be drawn up in light of the security risks inherent in the use of information technology, as well as the rules governing responsibilities, records and the disclosure of information, and the control procedures and regulations integrated into the system.

(4) Service providers and corporations providing clearing and settlement services shall install an information technology control system to monitor the information system for security considerations, and shall keep this system operational at all times.

(5) Based on the findings of the security risk analysis, the following utilities shall be installed as consistent with the existing security risks:

a) clear identification of major system constituents (tools, processes, persons) and keeping logs and records accordingly;

b) self-protect function of the information technology security system, checks and procedures to ensure the closure and complexity of the protection of critical components;

c) frequently monitored user administration system operating in a regulated, managed environment (access levels, special entitlements and authorizations, powers and responsibilities, entry log, extraordinary events);

d) a security platform designed to keep logs of processes which are deemed critical for the operation of the information system and that is capable of processing and evaluating these log entries regularly (and automatically if possible), or is capable of managing irregular events;

e) modules to ensure the confidentiality, integrity and authenticity of data transfer;

f) modules for handling data carriers in a regulated and safe environment;

g) virus protection consistent with the security risks inherent in the system.

(6) Based on their security risk assessment profile service providers and corporations providing clearing and settlement services shall implement protection measures to best accommodate their activities and to keep their records safe and current, and shall have adopted the following:

a) instructions and specifications for using their information system, and plans for future improvements;

b) all such documents which enable the users to operate the information system designed to support business operations, whether directly or indirectly, independent of the status of the supplier or developer of the system (whether existing or defunct);
c) an information system that is necessary to provide services and equipment kept in reserve to ensure that services can be provided without any interruption, or in the absence of such equipment, solutions used in their stead to ensure the continuity of activities and/or services;

d) an information system that allows running applications to be safely separated from the environment used for development and testing, as well as proper management and monitoring of upgrades and changes;

e) the software modules of the information system (applications, data, operating system and their environment) with backup and save features (type of backups, saving mode, reload and restore tests, procedure), to allow the system to be restored within the restoration time limit deemed critical in terms of the services provided. These backup files must be stored in a fireproof location separately according to risk factors, and the protection of access in the same levels as the source files must be provided for;

f) a data storage system capable of frequent retrieval of records specified by law to provide sufficient facilities to ensure that archived materials are stored for the period defined by legal regulation, or for at least five years, and that they can be retrieved and restored any time;

g) an emergency response plan for extraordinary events which are capable of causing any interruption in services.

(7) Service providers and corporations providing clearing and settlement services shall have available at all times:

a) operating instructions and models for the inspection of the structure and operation of the information system they have developed themselves or that was developed by others on a contract basis;

b) the syntactical rules and storage structure of data in the information system they have developed themselves or that was developed by others on a contract basis;

c) the scheme of classification of information system components into categories defined by the service provider or the corporation providing clearing and settlement services;

d) a description of the order of access to data;

e) the documents for the appointment of the data manager and the system host;

f) proof of purchase of the software used;

g) complex and updated records of administration and business software tools comprising the information system.

(8) All software shall comprise an integrated system:

a) that is capable of keeping records of the data and information required for regular operations and as prescribed by law;

b) that is capable of keeping reliable records of moneys and securities;

c) that has facilities - in the case of service providers and corporations providing clearing and settlement services - to keep up-to-date records on investment instruments and commodities dealt on the exchange market separately for each client, or in the case of corporations providing clearing and settlement services, that has facilities to keep up-to-date records on investment instruments and commodities dealt on the exchange market held by the investment service providers and their clients, separately for each investment service provider;

d) that has facilities to connect directly or indirectly to national information systems appropriate for the activities of service providers and corporations providing clearing and settlement services. The software used by service providers keeping securities accounts shall have facilities to connect to the central depository’s network as well;

e) that is designed for the use of checking stored data and information;

f) that has facilities for logic protection consistent with security risks and for preventing tampering.

(9) The internal regulations of the service providers and corporations providing clearing and settlement services shall contain provisions concerning the knowledge required in the field of information technology for filling certain positions.

Installation of Branches in Other Member States of the European Union

Section 102.
(1) Investment enterprises are required to notify the Commission when establishing a branch office in another Member State of the European Union.

(2) The notification referred to in Subsection (1) shall contain
   a) an indication of the Member State of the European Union where the investment enterprise intends to set up a branch office;
   b) documents concerning the organizational structure, management and system of control of the branch office;
   c) description of the proposed activities;
   d) the business plan;
   e) name of the persons appointed to management positions;
   f) the address of the branch office.

(3) If the information supplied to the Commission offers sufficient proof as to the management structure and financial situation of the notifying investment enterprise being in compliance with legal provisions, the Commission shall notify the competent supervisory authority of the Member State concerned in writing within three months from receipt of the notification, and shall simultaneously inform the notifying investment enterprise thereof.

(4) In the notification referred to in Subsection (3) the Commission shall advise the competent supervisory authority of the Member State in question concerning the investor protection regulations pertaining to the investment services and activities auxiliary to investment services in which the branch office proposes to engage.

(5) In the event of the Commission’s decision to dismiss conveyance of the notification referred to in Subsection (3), the investment enterprise concerned shall be duly informed within two months, including an explanation.

(6) Within two months from receiving the notification under Subsection (3), the competent supervisory authority of the other Member State shall inform the investment enterprise concerned regarding the conditions prescribed in connection with the activities it wishes to perform.

(7) The branch office may be established and may commence operations following receipt of the notification under Subsection (6), or following the two-month period within which the notification is to be conveyed.

(8) In the event of any changes in the information supplied under Paragraphs b)-f) of Subsection (2), or in the investor protection regulations pertaining to the investment services and the activities auxiliary to investment services in which the branch office is engaged, the investment enterprise shall be required to notify the Commission and the competent authority of the Member State in writing, at least one month in advance.

(9) The Commission shall advise the supervisory authority of the other Member State of the European Union, if it has revoked the license of the investment enterprise that has a branch office in that Member State.

**Cross-border Services**

*Section 103.*

(1) Any investment service provider that wishes to initiate cross-border business in another Member State of the European Union concerning investment services and/or activities auxiliary to investment services shall notify the Commission in advance regarding its plan to set up operations in that other Member State.

(2) The notice referred to in Subsection (1) shall contain:
   a) an indication of the Member State of the European Union in which the investment service provider intends to provide services;
   b) a business plan concerning the proposed activity.
(3) Within one month of receipt of the notification referred to in Subsection (1), the Commission shall notify the competent supervisory authority of the Member State to which the notification pertains concerning the proposed activities of the investment service provider and the investor protection regulations, and it shall inform the investment service provider accordingly.

(4) The investment service provider may commence operations in the other Member State following receipt of the Commission’s notification.

(5) Upon receipt of the notification referred to in Subsection (3), the competent supervisory authority of the other Member State shall inform in writing the investment service provider concerned regarding the conditions prescribed in connection with the activities it wishes to perform.

Section 104.

Upon receipt of notice from the competent supervisory authority of another Member State of the European Union in regard to an investment enterprise or an investment service provider that is registered under its jurisdiction and is planning, respectively, to open a branch office or to initiate cross-border business in Hungary, the Commission shall communicate the conditions for such activities to the investment enterprise or the investment service provider in question, such as:

a) the regulations on advertisements,
b) the requirement for providing information to clients in the Hungarian language,
c) the mandatory layout of standard service agreements,
d) the provisions on performance of obligations.

Relations with the European Commission

Section 105.

(1) The Commission shall supply written information to the European Commission concerning

a) any license issued to an investment service provider that is a subsidiary, whether directly or indirectly, of a company established in a third country;
b) the acquisition of a holding in an investment enterprise established in Hungary by a company registered in a third country as a consequence of which the Hungarian investment enterprise becomes the subsidiary of the company registered in a third country.

(2) The notification supplied under Paragraph a) of Subsection (1) shall illustrate the corporate structure in detail.

Authorization of the Acquisition of Holding in an Investment Enterprise

Section 106.

Authorization for the acquisition of a qualifying holding in an investment enterprise shall be granted

a) if the bidder is not exposed to any influence that is likely to operate to the detriment of the prudent and sound management of the investment enterprise, and is able to ensure the sound and prudent management and control of the investment enterprise on his own accord, and
b) if the bidder's business relations and ownership structure satisfies the criteria of transparency and it does permit the authorities to exercise effective control over the investment enterprise.

Section 107.

(1) The Commission's prior consent is required for the acquisition of qualifying holding in an investment enterprise.
(2) The Commission shall authorize the acquisition of qualifying holding if
   a) the applicant has supplied evidence concerning the legitimacy of the financial means for acquisition;
   b) the applicant has supplied documents issued within thirty days to date to verify of having no outstanding debts owed to the state tax authority, the customs authority, the duties office or the social security system;
   c) the other holdings and business activities of the applicant are not harmful to the prudent management of the investment enterprise;
   d) the applicant, if a natural person, has no prior criminal record, and if he is not subject to the disqualifying factors listed under Subsection (1) of Section 357;
   e) is a legal person or an unincorporated organization
      1) that was established in compliance with the relevant legal regulation and is not adjudicated in bankruptcy or liquidation proceedings,
      2) whose executive officer or officers is (are) not subject to the disqualifying factors listed under Subsection (1) of Section 357.
   f) the applicant submits the statements referred to in Paragraphs m) and n) of Point 1 of Schedule No. 10 to the Commission.
(3) If the person acquiring a qualifying holding in an investment enterprise is non-resident, and if under the laws of the country where his commercial domicile or residence is located the conditions laid down under Subsection (2) cannot be verified, the Commission shall be entitled to request the applicant to supply other documents.
(4) Any increase of holding in an investment enterprise so as to achieve twenty, thirty-three, fifty, seventy-five, or one hundred percent control of the capital, whether directly or indirectly, shall be subject to the Commission's prior consent for which the requirements specified under Subsection (2) shall be properly substantiated.
(5) Any person holding a share in an investment enterprise shall be required to notify the Commission two days in advance of his intention to dispose of any fraction of his share or to amend his contract of guarantee by which to reduce his interest or voting rights to ten, twenty, thirty-three, fifty, seventy-five or one hundred percent.
(6) All owners of an investment enterprise must remain in compliance with the requirements specified under Subsection (2) throughout. In the event of an owner failing either of the requirements, the Commission may suspend the voting right of such person until the satisfaction is restored and substantiated.
(7) When the voting right of an owner of an investment enterprise is terminated by law or has been suspended by the Commission by virtue of law, the votes of such person shall not be included for the purposes of quorum.
(8) An investment enterprise shall notify the Commission within five business days upon gaining knowledge of any acquisition, disposal or amendment of holdings in the percentage thresholds specified in Subsections (1) and (4).

Section 107/A.

If the applicant is a credit institution, investment firm or insurance company that has a registered office in another Member State of the European Union, or a natural or legal person with dominant influence over such a credit institution, investment firm or insurance company, and if the application for the authorization specified in Subsections (1)-(4) of Section 107 is for the acquisition of a share or influence as a consequence of which the applicant has the capacity to exercise dominant influence over the investment firm, the Commission shall request the opinion of the competent supervisory authority of the other Member State concerned.

PART FIVE
REGULATIONS GOVERNING THE OPERATIONS OF INVESTMENT SERVICE PROVIDERS AND COMMODITIES BROKERS

Chapter X

RULES OF OPERATIONS OF INVESTMENT SERVICE PROVIDERS AND COMMODITIES BROKERS

Section 108.

Investment service providers and commodities brokers shall develop and operate an organization, and shall adopt operating, procedural and records systems, featuring a construction consistent with the nature of the activities and with the risks inherent in them, and having sufficient facilities

a) to minimize the possibility of any danger of conflicts of interest between the investment service provider or the commodities broker and their clients, or among clients, to the detriment of clients;

b) to permit control and monitoring of business decisions, transactions, commitments, positions and exposures, at predetermined intervals and with sufficient accuracy;

c) to permit proper handling and administration of securities, liquid assets and exchange-traded instruments which the clients have entrusted to them, and to afford adequate protection of ownership rights; and

d) to prevent the investment service provider or the commodities broker

1) to use the securities, liquid assets and exchange-traded instruments of clients as their own in any way or form, or

2) to use any confidential information pertaining to securities without proper authorization or for reasons other than they were intended.

Section 109.

(1) Investment service providers shall structure their organization to contain separate divisions for the various activities arranged under a scheme

a) to ensure a proper environment for the various divisions to operate independently and to appraise its activities,

b) to reduce the possibility of misuse of any information accessed through internal administrative channels,

c) to reduce the eventuality of any corruption among personnel,

d) to strengthen the control procedures incorporated into operating procedures.

(2) To achieve the objectives laid down in Subsection (1), the divisional structure and the related internal procedures and solutions shall be arranged to ensure

a) that the various functions can operate separately,

b) that access to information is allowed to authorized personnel only,

c) that the heads of the divisions are not interdependent in any way or form,

d) objectivity in the control procedures incorporated into operating procedures.

Section 110.

(1) Investment service providers and commodities brokers shall adopt an internal control regime or create an internal control department so as to

a) enforce the relevant legal provisions, exchange and clearing house regulations, the Commission's resolutions and regulations, and to improve efficiency in the licensed operations and to provide an adequate flow of information for management,
b) control compliance with the relevant legal provisions, exchange and clearing house regulations, the Commission's resolutions and regulations, and to reveal any departures from regulations and any discrepancies,

c) permit the prevention of any unlawful or negligent conduct and to correct discrepancies.

(2) The internal control regime of an investment enterprise and commodities broker shall be developed to accommodate the nature of the services they provide, the degree of scope and complexity of such services and the risks inherent in them.

(3) Investment enterprises and commodities brokers shall have at least one internal controller engaged in employment. Commodity brokers shall sign a written agreement stating that they will not object to the common employment of an internal controller. Any one internal controller may be employed by a maximum of three commodities brokers at any given time.

(4) The structure, jurisdiction and objectives of internal control, the professional requirements concerning internal controllers and the rules of procedures are to be laid down in internal regulations.

(5) The internal control department (internal controller) of investment service providers and commodities brokers shall be responsible to

a) to enforce the internal regulations adopted by the investment service provider or the commodities broker, and

b) to monitor the investment services and the activities auxiliary to investment services or the commodity exchange services, respectively, of the investment service provider and the commodities broker in terms legitimacy, safety and transparency, furthermore

c) execute all duties conferred upon by legal regulation.

(6) The internal control department

a) shall send its report

1) to the supervisory board and to the board of directors,

2) to the supervisory board and the board of directors of the founder if it is a branch office, or to the equivalent organizations; and

b) shall ensure that its reports are available to the Commission when requested.

(7) The person appointed by an investment enterprise or a commodities broker to direct its internal control department, or if there is only one internal controller, the internal controller

a) must have the appropriate degree of higher education specified in Subsection (5) of Section 99 and at least three years of professional experience, and

b) shall have no prior criminal record.

Section 111.

(1) The chairperson and members of the board of directors and of the supervisory board of an investment service provider, and that of an commodities broker operating as incorporated companies limited by shares, or the chairperson and members of the board of directors (managing director) and the chairperson and members of the supervisory board (person appointed to carry on the duties of the supervisory board) of a commodities broker operating as a cooperative, and the managing director of a commodities broker operating as a limited liability company shall be responsible to ensure that the investment service provider or the commodities broker operates in compliance with the relevant legal provisions, with exchange and clearing house regulations, with the Commission's resolutions and with internal regulations.

(2) The chairperson and members of board of directors and of the supervisory board of an investment service provider, and that of a commodities broker operating as incorporated companies limited by shares, or the chairperson and members of the board of directors (managing director) and the chairperson and members of the supervisory board (person appointed to carry on the duties of the supervisory board) of a commodities broker operating as a cooperative, and the managing director of a commodities broker operating as a limited liability company shall be responsible to ensure that the investment service provider
or the commodities broker has all the resources, procedures and solutions necessary for the sound and prudent management of the licensed activities, and shall be responsible for their application as well.

3) All executive officers and employees of investment service providers and commodities brokers shall, at all times, act in a professional and workmanlike manner, and shall handle their assigned duties with due care and attention as it is appropriate to best represent the interests of the investment service provider or the commodities broker and that of the clients, in due compliance with the relevant legal regulation.

Section 112.

1) Any investment service provider and any commodities broker operating as an incorporated company limited by shares must have two persons appointed as their authorized representatives vested with joint powers to sign documents in their and on their behalf, including access to their bank accounts and other current accounts, and for underwriting any commitments in connection with the licensed activities. The persons vested with such powers must be members of the board or general management.

2) The authorization of the persons referred to in Subsection (1) to sign jointly may be transferred according to the charter document or bylaws of the investment service provider, as joint authorization.

3) 

Chapter XI

CONFLICT OF INTEREST

Section 113.

1) An executive employee, business representative and investment analyst of an investment enterprise, and their close relative
   a) cannot hold any share, whether directly or indirectly, in another investment enterprise;
   b) cannot hold any share, whether directly or indirectly, as an executive officer in another investment enterprise;
   c) cannot hold any office in another investment enterprise as an executive employee, business representative or investment analyst;
   d) cannot hold any executive office in or be in the employment of, the issuer of listed securities, other than the securities issued by the investment enterprise and listed on the stock exchange.

2) A person employed by a credit institution that is engaged in investment services, being the director of the investment division or being vested with decision-making powers, cannot be employed in another division in the same position, and may not accept employment in another investment service provider in the same position. The provisions of Paragraphs a)-d) of Subsection (1) shall apply as appropriate to such persons.

3) An executive employee of a commodities broker referred to in Paragraph a) of Subsection (2) of Section 89, the director of the investment division and a person vested with decision-making powers at a commodities broker referred to in Paragraph b) of Subsection (2) of Section 89 cannot hold any executive position in an investment service provider or in another commodities broker and may not accept the office of director of investment services or commodity exchange services nor a position that is vested with decision-making powers.

4) Any person who falls within the scope of incompatibility as defined under Subsections (1)-(3) must forthwith notify the competent agency or authority, and shall terminate the grounds of incompatibility within ninety days.

Section 114.
The personal transactions of the executive officers and employees of an investment enterprise, being related or similar to the profile of the investment enterprise, shall be governed by the internal regulations of the investment enterprise, laying down the terms and conditions and system of record-keeping. The regulations shall be submitted to the Commission.

Chapter XII

REGULATIONS GOVERNING THE SERVICE ACTIVITIES OF INVESTMENT SERVICE PROVIDERS AND COMMODITIES BROKERS

Contracting

Section 115.

(1) Investment service providers and commodities brokers shall inform their clients, prior to entering into a contract concerning the services they provide as licensed, on the current prices of investment instruments and/or exchange-traded instruments, on previous changes in such prices, on the marketability of the instruments, on public information, on the risks involved, on the investor protection scheme if any, and shall supply all other information that may be of consequence regarding the conclusion and settlement of the contract. Investment service providers and commodities brokers shall include a clause in their contracts verifying receipt of said notifications and information.

(2) Prior to entering into a contract, investment service providers and commodities brokers shall inform prospective clients regarding any and all contractual fees and charges and also if some law other than Hungarian law will be used for settling legal disputes in connection with the contract or if Hungarian courts are not vested with exclusive jurisdiction.

(3) Investment service providers and commodities brokers, prior to entering into a contract involving derivative instruments, must investigate whether the offered investment instruments, exchange-traded instruments, transaction type, investment construction is feasible in terms of the client's knowledge of the market and his financial situation with regard to such exposure.

(4) When accepting an instruction for futures or option transactions, the investment service provider and the commodities broker shall issue a risk assessment statement and shall have it signed by the client in acknowledgement, or obtain some other form of verification from the client.

(5) The risk assessment statement shall indicate the risk to which the client is exposed due to the nature of the futures and options transaction, as opposed to that of a spot transaction.

(6) Whenever business is conducted between an investment service provider, or a commodities broker, and a client exclusively by electronic means, the investment service provider, or the commodities broker must operate or contract the use of an information system so as to ensure access for the client to the information specified under Subsections (1), (2) and (4) of this Section.

(7) The investment service provider, or the commodities brokers shall not be subject to the requirements laid down in Subsections (1), (3) and (4) of this Section if
   a) the client is an institutional investor,
   b) it pertains to a particular transaction on the basis of a previous framework contract involving investment instruments, commodities or derivative instruments in respect of which the client has already received the information, or
   c) the client waives his right to the information in writing or in some other agreeable form.

(8) In the application of Paragraph c) of Subsection (7), a client may waive the right to information if engaged in regular business relations with the investment service provider, or the commodities brokers, meaning to have concluded at least five transactions within the preceding year for a value of over HUF two hundred million on the aggregate.
(9) Unless otherwise agreed, investment service providers and commodities brokers shall supply the information referred to in Subsections (1) and (2) and the risk assessment statement referred to in Subsection (4) in the Hungarian language.

Section 116.

(1) Investment service providers and commodities brokers shall be compelled to check the financial reserves of their clients in terms of exposures.

(2) When checking the financial background of clients in relation to exposures, the investment service provider, or the commodities broker shall be entitled to request their clients to supply written information concerning their financial resources, and may demand
   a) to substantiate said financial information with documents,
   b) additional security apart from the one stipulated in the standard service agreement, and
   c) to disclose any relationship with investment service providers or commodities brokers.

Section 117.

(1) Investment service providers and commodities brokers shall accept orders only as stipulated in their standard service agreement.

(2) Investment service providers and commodities brokers shall record the transactions they have concluded in the form specified in their standard service agreement, whether in writing or in electronic format, based on a written framework contract.

(3) Investment service providers and commodities brokers shall forthwith notify their clients by the procedure stipulated in the standard service agreement concerning any transaction they have concluded on their behalf. If expressly requested by a client, the investment service provider or the commodities broker shall be required to notify the client when his offer is accepted, and the terms under which accepted.

(4) The client's name in the contract cannot be replaced by a number or code, a pseudonym or any other reference suitable to conceal the identity of the client.

Section 118.

Investment service providers and commodities brokers cannot propose any transaction that is deceptive in nature, and meant for speculative purposes to manipulate prices, or that is disadvantageous to the client.

Refusal of Service

Section 119.

(1) An investment service provider and a commodities broker shall refuse to provide service if
   a) a transaction involves insider trading or the unfair manipulation of market prices,
   b) the order violates any legal provision, exchange or clearing house regulations,
   c) the client refused to identify himself or to cooperate in an identification procedure, or the documents supplied are not reliable, or
   d) the client's financial resources are deemed insufficient to cover exposures.

(2) Service must be refused in the case described in Paragraph a) of Subsection (1) if the investment service provider or the commodities broker has knowledge, or there is substantial reason to believe, that completion of the transaction will result in insider trading or the unfair manipulation of market prices.

(3) Investment service providers and commodities brokers shall notify the Commission within two days concerning any incidence when they have refused service.
Registration and Settlement of Contracts

Section 120.

(1) Investment service providers and commodities brokers shall keep records of all dealings on their own account, agency contracts and consignments in sequence, in a uniform system.

(2) Investment service providers and commodities brokers shall keep separate records of transactions performed on their own account from those performed on behalf of clients.

(3) Unless otherwise prescribed by law, investment service providers and commodities brokers shall retain all of the records on their activities performed under this Act on file for eight years from the date of settlement or termination of the contract to which they pertain.

Section 121.

(1) Investment service providers and commodities brokers may accept consignments in respect of listed securities, exclusive of government securities, and other exchange-traded instruments only for trading on the exchange, and may engage in dealing for their own account - with the exception of the commodities brokers referred to in Subsection (2) of Section 89 - only if transacted on the exchange.

(2) Investment service providers and commodities brokers may engage in the trading of listed securities, other than government securities, and exchange-traded instruments only in the capacity of intermediaries subject to consignment contract with the client. If specifically requested by a client, the investment service provider shall enter into a consignment contract in respect of government securities as well.

(3) When trading on the exchange, an investment service provider or a commodities broker may enter into a sales contract with the client for its own account in the absence of an appropriate counter-offer, only if permitted by the exchange's regulations.

(4) Under a consignment contract, the investment service provider or the commodities broker may conclude the transaction for its own account, or converged with other transaction or broken up into segments, only upon the client's express consent.

(5) Investment service providers and commodities brokers must conclude transactions that are similar in nature in the sequence of arrival, and, if transactions are similar in nature, they shall conclude those made on behalf of clients before those made on their own account. The requirement to complete transactions in the sequence of arrival shall not apply to transactions in which the client waives his rights and instructs the service provider to carry out the transaction in consecutive segments.

(6) Whenever consignments from different clients are converged, the investment service provider and the commodities broker shall afford equal treatment to all clients concerned and shall not discriminate against any one of the clients.

(7) Any and all extra margin achieved when the investment service provider or the commodities broker is able to conclude a transaction at a price better than what is stipulated in the contract shall be paid to the client. Any contract to the contrary shall be null and void.

(8) An investment service provider and a commodities broker may engage a third party in a consignment solely to the extent necessary to protect the client from sustaining any losses.

Over-the-counter Dealing in Securities

Section 122.

(1) When quoting a selling or purchase price publicly in respect of securities which are not listed on the exchange, the investment service provider shall specify the duration and any quantitative criteria (maximum and minimum) to which his offer pertains. In the event the investment service provider fails to disclose the period of validity for his offer, the price quoted shall remain valid until further instructions.
The investment service provider shall communicate his decision to cancel or alter the offer in the same manner as the original offer was published.

(2) Under the period of validity all transactions made by the investment service provider under sales contracts must be done at the prices he has quoted.

(3) An investment service provider shall be permitted to invalidate the price he has quoted publicly under extraordinary circumstances, such as some emergency or disturbance in the operations of the investment service provider or any unexpected situation arising in the market due to reasons reported in a special announcement. The clients concerned shall be informed of the actual reason.

(4) Any investment service provider who did not disclose his offer price shall be allowed to publish only the prices actually contracted, and the value and date of the transactions.

Miscellaneous Rules on Trading

Section 123.

When transactions are conducted between investment service providers, the buyer shall be required to notify the Commission within two days if the investment service providers who are parties to the transaction are affiliated through their owners or if any owner of the participating investment service providers

a) has an interest of more than ten per cent in one investment service provider and a direct holding of any amount in the other investment service provider, or

b) has a direct and indirect interest of more than ten per cent in either one of the participating investment service providers.

Section 124.

(1) Any investment service provider who enters into a transaction on own account

a) that involves his own securities in issue, and

b) that involves the securities of an issuer in which he has direct or indirect holding of over ten per cent shall forthwith notify the Commission upon conclusion of the transaction.

(2) The obligation of notification referred to in Paragraph b) of Subsection (1) shall not apply to securities purchased under subscription guarantee under the period of subscription or public sale, and until the thirtieth day following conclusion of the subscription procedure.

General Provisions Concerning Portfolio Management Activities

Section 125.

(1) Persons engaged in portfolio management (hereinafter referred to as 'portfolio manager') shall, at all times, proceed in the client's best interest in compliance with legal provisions and with their own internal regulations, and as stipulated in the portfolio management contract.

(2) Portfolio managers shall act under the principle of equal treatment with respect to portfolios and clients. In this context they shall develop and adopt rules on diversification and spreading as referred to in Schedule No. 13.

Section 126.

(1) Any one portfolio manager may manage several, individual portfolios. Portfolio managers must handle and record the portfolios they manage separately.
(2) The assets which comprise part of a portfolio shall not be construed as the property of the portfolio manager who manages it.

Section 127.

(1) Portfolio managers shall conduct transactions in respect of the assets comprising part of a portfolio entrusted to them in their own name and on account of the client, for it and on its behalf, to whom the portfolio belongs.
(2) Any transaction conducted by a portfolio manager for the transfer of investment instruments of clients may involve the instruments of several clients or a single client.

Section 128.

(1) All contracts for portfolio management services must be made in writing or in the form of an electronic document executed by a qualified electronic signature.
(2) The mandatory layout of the contract is illustrated in Schedule No. 14.

Section 129.

A portfolio manager may not acquire any holding in an issuer for the benefit of the portfolios it manages to an extent entailing any future purchase obligation.

Section 130.

(1) A portfolio manager shall be allowed to transfer portfolio management contracts only to an organization that is licensed to engage in portfolio management.
(2) The transfer of portfolio management contracts shall be governed by the provisions of the Civil Code on assumption of debt.
(3) A portfolio manager may involve a subcontractor for any part of portfolio management services solely upon the prior consent of the client concerned. Subcontract services may be ordered only from a portfolio manager that is licensed to engage in portfolio management under this Act, or from a foreign company that is licensed in the country where established.
(4) The portfolio manager shall be subject to full and unlimited liability for the portfolio management services provided by third parties. Any clause or stipulation to the contrary shall be null and void.

Section 131.

A portfolio manager may make any promise regarding earnings only in conjunction with a pledge for retaining capital. Any pledge must be
a) accompanied by a bank guarantee, or
b) secured by financial instruments and a sound investment strategy, of which the client must be informed in detail.

Section 132.

Clients shall be informed on a regular basis concerning the market value of the investment instruments in their portfolios. The detailed rules of evaluation shall be laid down in the regulations for the valuation of assets drawn up as illustrated in Schedule No. 13.

Section 133.
(1) The portfolio manager shall proceed according to the principles laid down in Schedule No. 15 regarding the calculation and publication of any capital increment or profit earned.
(2) The portfolio manager shall send written statements to clients quarterly or more frequently, unless prescribed by law to the contrary.

Section 134.

(1) The executive officers of portfolio managers and those of their employees engaged in the decision-making and execution process in connection with investments may not be in the employment of
a) a custodian,

b) a contractor involved in the implementation of investment-related decisions, such as an investment service provider, real estate appraiser, real estate broker, or another portfolio manager, or
c) the client of the portfolio manager who is engaged in a field directly associated with portfolio management.

(2) Any person who falls within the scope of incompatibility as defined under Subsection (1) must forthwith notify the Commission, and shall terminate the grounds of incompatibility without delay.

(3) Additional provisions on incompatibility may be prescribed by other legislation.

Section 135.

The portfolio manager - not including investment fund managers - must have an administration and management system to distinctly separate portfolio management operations from all aspects of the other business activities in which the portfolio manager is engaged. This obligation shall not apply to the asset management services provided to the Voluntary Mutual Insurance Fund and to private pension funds.

Section 136.

(1) With the exception defined in Subsection (2), a portfolio manager may not purchase for any portfolio it manages
a) securities of his own issue;
b) securities issued by the portfolio manager's affiliated company, with the exception of securities whose price is listed publicly, including those to be admitted for the official listing on an exchange. Where any portfolio is subject to public disclosure, the transfer of such securities shall be published in accordance with the rules pertaining to extraordinary disclosure of information.

(2) A portfolio manager may depart from the provisions of Subsection (1), if the client has stipulated by contract the procedures to be applied in the cases under Paragraphs a) and b) of Subsection (1).

(3) A portfolio manager may not place its own securities into any portfolio it manages, nor may it purchase securities that are part of the portfolios it manages.

(4) A portfolio manager may not transact any deals involving investment instruments -- with the exception of government securities with a maturity of less than six months and open-ended public investment certificates - that are not listed on a recognized exchange on behalf of any portfolio it manages with a company in which it has a qualifying holding or with a company that has a qualifying holding in the portfolio manager.

Section 137.

(1) With the exception set forth in Subsection (2), the portfolio manager shall contract the services of a custodian that is licensed under Paragraph i) of Subsection (1) of Section 3 of the CIFE to provide custodial services to collective investments for the safe-keeping of investment instruments that are part of the portfolios it manages and for maintaining its bank account operated for investment.
(2) The portfolio manager shall contract the services of a custodian that is licensed under Paragraph i) of Subsection (1) of Section 3 of the CIFE or a custodian licensed under Paragraph b) of Subsection (2) of Section 81 of this Act for the safe-keeping of securities to provide custodial services to collective investments for the safe-keeping of investment instruments that are part of the portfolios it manages as part of the activities specified in Paragraph c) of Subsection (1) of Section 81 and for maintaining its bank account operated for investment.

(3) The custodian shall provide its services in view of the benefit of the investors.

(4) The securities account and the bank account operated for investments in connection with a particular portfolio must be managed by the same custodian.

Chapter XIII

TRADING OF SECURITIES ON ACCOUNT

Conveyance of Dematerialized Securities

Section 138.

(1) Whenever title to dematerialized securities (for the purposes of this Chapter hereinafter referred to as 'securities') is conveyed it must take place through securities accounts.

(2) Unless evidenced to the contrary, the holder of a security shall be the person on whose account it is registered.

Central Securities Account

Section 139.

(1) The central depository shall operate a separate account for each securities intermediary. The central depository shall keep the central securities account in the name of the issuer for securities that have been set for conversion but not yet surrendered.

(2) When a securities intermediary makes a transfer of securities from a securities account it maintains, to the credit of a securities account maintained by another securities intermediary, the transaction shall contain an indication of the central securities account number to which it is credited.

(3) At the time the transaction is processed through the central securities account the securities intermediary maintaining the destination securities account shall record the securities transferred with the same date as it is recorded on the central securities account.

Securities Account

Section 140.

(1) Securities accounts for holders of securities shall be maintained by investment service providers, while securities accounts to record the securities held by clearing members shall be maintained by clearing houses (hereinafter referred to as 'securities intermediary').

(2) A securities account shall be deemed operative when the underlying securities account contract is executed. A securities account contract is to stipulate the securities intermediary's commitment to the administration of securities owned by the other party (the account holder) under the securities account as contracted, to execute the account holder's legitimate instructions, and to keep the account holder informed concerning all transactions to and from the account, as well as on the balance of the account.
Section 141.

(1) The securities account shall contain
a) the number and description of the account,
b) the data prescribed in specific other legislation for the identification of the account holder,
c) the codes of securities (ISIN code), their type and quantity, and
d) reference to any attachment of the securities.

(2) The account holder's name cannot be replaced by a number or code, a pseudonym or any other reference suitable to conceal the identity of the account holder.

Section 142.

(1) The securities intermediary shall record all transactions to and from a securities account in a statement and shall send this confirmation to the account holder as stipulated in the standard service agreement. The securities intermediary shall supply an account statement indicating the transactions in the securities account whenever one is requested by the account holder.

(2) The account statement shall evidence ownership of securities to third parties as effective on the statement date. Account statements are not negotiable and cannot be ceded by endorsement.

Section 143.

(1) A securities account may be controlled by the account holder of record, or by a person duly authorized by the account holder. A power of attorney supplied to the securities intermediary shall be accepted only if made out in the form and if containing the information stipulated in the standard service agreement.

(2) Control of jointly owned securities recorded on a securities account shall be exercised by the owners jointly, or by a common representative elected by the owners and notified to the securities intermediary.

(3) Control of a securities account whose holder is adjudicated in bankruptcy or liquidation, or is under voluntary dissolution can be exercised only by the bankruptcy trustee, the receiver or the liquidator, as the case may be. Following the announcement of the bankruptcy, liquidation or voluntary dissolution proceedings the securities intermediary must accept instructions solely from such persons. The account holder must notify the name of the bankruptcy trustee, the receiver or the liquidator to the securities intermediary within three days from the date of appointment.

(4) The signature specimen of authorized signatories shall be supplied to the securities intermediary in the manner stipulated in the standard service agreement.

(5) Instructions concerning a securities account must be made on a prescribed form where so specified by legal regulation.

Attachment of Securities Accounts

Section 144.

(1) The securities intermediary shall transfer all securities to a subsidiary account, which are under attachment by virtue of law, court order, administrative measure or contract, underlying some right of a third person, or if so instructed by the account holder.

(2) The subsidiary account shall indicate the grounds for attachment, such as collateral security, lien, court deposit, action of replevin, judicial execution, and the person named as the beneficiary.

(3) The securities intermediary shall send the account statement issued on a subsidiary account to the account holder and to the person under whose name the attachment is registered, and also to the court, bailiff or other authority to whom it pertains. The procedure shall apply when the attachment as cancelled.
(4) The attachment of securities placed on a subsidiary account may be cancelled, or another attachment may be implemented if the grounds for attachment are terminated as it is declared and notified by the appropriate person. In this case the securities intermediary shall forthwith reinstall the securities in question into the securities account.

(5) If the account holder is permitted to alienate any securities under attachment, the securities intermediary shall transfer such securities, with an indication of the attachment, to the subsidiary account of the new owner of the securities opened under his securities account.

(6) If the beneficiary of attachment is able to verify as to having obtained title of ownership of the securities in question, the securities intermediary shall forthwith transfer those securities to the securities account specified by the new owner.

**Termination of Securities Account**

**Section 145.**

(1) A securities account contract may be terminated by the account holder of record at any time without notice, however, it shall take effect only if transferred to another securities intermediary, with the exception if the account has been depleted.

(2) The securities intermediary may terminate a contract subject to a thirty-day notice period, if he retires from the activity in question, or in the event of the account holder's failure to settle any outstanding debts following repeated notices. The securities intermediary, in its notice of termination, shall advise the account holder to designate a new securities intermediary. If a new securities intermediary is not specified the rules of forced custody shall apply.

(3) Termination notices must be communicated in writing.

(4) When a securities account is depleted it shall not automatically constitute termination of the securities account contract.

**System of Accounts**

**Section 146.**

The detailed regulations on the operation of securities account and safe custody accounts are laid down in specific other legislation.

**Chapter XIV**

**CLIENT ACCOUNT**

**Section 147.**

(1) With the exception specified in Section 148, investment service providers and commodities brokers shall maintain client accounts. Investment enterprises and commodities brokers are to record the earnings of the account holders on these accounts, and shall settle payments charged to the account holder from the client account. Investment enterprises must have client account contracts with all clients to whom they provide deposit management and/or individual portfolio management services.

(2) Clients may freely dispose of the proceeds from investment services, commodity exchange services and from the sale of securities; they may also dispose of any income from securities.

(3) Unless prescribed by law to the contrary, investment service providers and commodities brokers shall place all funds of their clients held on client accounts in deposit accounts.

(4) The opening and administration of client accounts is governed by specific other legislation.
Section 148.

The credit institution that is engaged in investment service activities may transact payments in connection with the investment services it provides to a client through the client's bank account, if expressly requested by the client.

Chapter XV

Rules GOVERNING Share Registers and nominees

Rules for the Administration of Share Registers

Section 149.

(1) The board of directors of a limited liability company may outsource the administration of its share register to a clearing house, an investment enterprise or a financial institution subject to publication in the Cégközlöny (Companies Gazette) and in the company's periodical of corporate announcements.

(2) The securities intermediary, unless otherwise instructed by the shareholder and with the exception of the contracts defined in Section 151, shall disclose to the administrator of the share register the shareholder's name (corporate name), address (corporate domicile), the quantity of shares held by the shareholder according to class and series, as well as any other information prescribed by law. The above-specified disclosure shall be made within five days from the date when the respective shares are recorded in the securities account.

(3) Any shareholder who has declined, pursuant to Subsection (2), to have his particulars recorded in the share register, or that of his nominee's, shall not be able to exercise the shareholder's rights attaching to shares in the limited liability company in respect of the shares in his possession.

(4) The provisions laid down in Subsections (2) and (3) shall apply in respect of share certificates deposited at an investment service provider, however, the notification, disclosure and registration obligation lies with the securities custodian.

(5) The securities intermediary or the custodian, as the case may be, shall notify the administrator of the share register within five days if title of ownership in respect of any shares held on a shareholder's securities account that have been conveyed, or if securities had been withdrawn for deposit.

Section 150.

(1) When a shareholder intends to exercise his shareholder's rights in person, the securities intermediary shall issue an ownership certificate in respect of the dematerialized securities. The custodian shall place the share certificate placed in his custody at the shareholder's disposal when requested for the purpose of exercising ownership rights.

(2) The ownership or the deposit certificate shall indicate the name of the issuer and the class of the share, the quantity of shares, the name of the securities intermediary or the custodian and their signatures, and the name (corporate name) and address (corporate domicile) of the shareholder in respect of registered shares. An ownership or deposit certificate issued to permit its holder to attend the company's general meeting shall remain valid until the date of the general meeting, including the second meeting if reconvened.

(3) After an ownership or deposit certificate is issued no changes shall be made in the securities account concerning the shares to which it pertains, or it cannot be placed at the disposal of the owner or to any other person, respectively, except if the ownership or the deposit certificate is cancelled at the same time.

(4) Of any ownership or deposit certificate is issued to permit its holder to attend the company's general meeting, the securities intermediary or the custodian shall notify the limited liability company prior to the
general meeting (or the reconvened meeting) in writing or in the form of an electronic document executed by a qualified electronic signature.

**Shareholder's Representative (Nominee)**

**Section 151.**

(1) A securities intermediary, a custodian, and a clearing house may act as an attorney in fact on behalf of a shareholder (hereinafter referred to as ‘nominee’) under written authorization signed by the shareholder (for the purposes of this Chapter hereinafter referred to as ‘authorization’) in order to exercise the shareholder’s rights in public limited companies in its own name but on behalf of the shareholder. A non-resident person may also act as a nominee if he is entitled to exercise membership rights in the company in question under the laws of the state of domicile in his own name and on behalf of the shareholder. This shall also apply if membership rights in the company are exercised on the basis of secondary securities on behalf of the owner (ultimate beneficiary) of the secondary security.

(2) A nominee shall have powers to exercise all rights of the principle shareholder for which the authorizing shareholder is entitled. Authorization to act as a nominee can only be granted with respect to registered shares placed in a securities account that is maintained by the nominee or which are deposited with the nominee.

(3) The above-specified authorization cannot be incorporated into a contract that pertains to the securities account, the safe custody of securities, or any other contract concerning investment services or activities auxiliary to investment services. The authorization shall specifically stipulate the mode of contact between the shareholder and his nominee, the method of requesting and providing instructions, and the method of disclosure.

**Section 152.**

(1) A nominee may represent the principle shareholder of a limited liability company upon being registered in the share register in that capacity. It shall also specify the class and quantity of the underlying shares.

(2) When the acquisition of shares in a particular public limited company is subject to approval by the authorities, the nominee must be recorded in the share register together with the shareholder or with the owner (ultimate beneficiary) of secondary securities issued on the shares of a resident public limited company.

**Section 153.**

(1) In his capacity to exercise shareholder's rights, a nominee shall handle his duties with due care and attention as it is appropriate to best represent the interests of the shareholder. A nominee shall expressly indicate being a representative of the actual owner of the shares. A nominee may be assisted in that capacity only to the extent absolutely necessary.

(2) A nominee must not engage in any unlawful conduct, intended or implied.

(3) When demanded by any shareholder (or the owner of secondary securities), by the limited liability company or the Commission the nominee shall be required to reveal the identity of the shareholders he represents and shall produce evidence in support of his capacity as a nominee when demanded by the limited liability company or the Commission.

(4) Any person who is able to substantiate his valid concern shall be entitled to request the Commission to reveal the identity of the shareholders represented by a particular nominee.

**Section 154.**
(1) The nominee shall inform the shareholder in the manner and at the time stipulated in the authorization concerning the limited liability company's official announcements made in accordance with the Companies Act and with this Act, the resolutions adopted by the general meeting in detail, and of the measures he has taken in his capacity as a nominee and the ramifications of these actions.

(2) The nominee must convey to the shareholder all information that is available to him in connection with the limited liability company that may be of concern to the shareholder, and shall inform the shareholder concerning any documents he has obtained. The nominee shall provide the shareholder with copies of such documents when so requested.

(3) The nominee must request the shareholder to provide instructions prior to a general meeting. The nominee shall present his request to the shareholder to provide such instructions so as to provide ample time for the shareholder to draw up the instructions.

(4) The above-specified request for instructions shall demonstrate in detail the agenda of the general meeting and the proposals sent by the limited liability company to the shareholders.

(5) If there are no instructions from the shareholder, with the exception specified in Subsection (6), or if the shareholder's instructions are not unambiguous, the nominee cannot exercise the shareholder's voting rights.

(6) If there are no instructions from the shareholder the nominee may exercise his voting rights attaching to his shares only if:
   a) the nominee has disclosed in the request for instructions specified in Subsections (3) and (4) his suggestions for voting, and the explanation of these suggestions, concerning the various items of the agenda, provided that
   b) the authorization granted to the nominee expressly confers general powers to the nominee that can be revoked by the shareholder at any given time, to the extent that in the event of the shareholder's failure to respond to the request for instructions, this shall be construed to be understood as his consent concerning the voting strategy suggested by the nominee.

(7) When voting in a general meeting the nominee must weigh any disagreement in the instructions received from different shareholders.

Section 155.

(1) An authorization received from a shareholder to exercise shareholder's rights shall terminate upon the transfer of the underlying securities. The nominee shall notify the limited liability company concerned to that effect, if registered in the share register as a nominee.

(2) The nominee shall take measures forthwith to have his name removed from the share register if so instructed by the shareholder in writing.

(3) The activities of non-resident nominees in the domestic territory shall be subject to the provisions of this Chapter; as regards his liability toward non-resident clients, the relevant foreign legislation shall be observed.

(4) For subjects not regulated in this Act regarding the agreement between a shareholder and a proxy and the exercise of shareholder's rights by the proxy, the provisions of the Civil Code on agency shall apply.

Chapter XVI

REGULATIONS ON INVESTMENT SERVICES ACTIVITIES

Investment Loans

Section 156.
(1) Any person who provides investment loans shall have adopted lending regulations in which to lay down guidelines for the soundness and transparency of exposures, and for the assessment, control and reduction of risks.

(2)

(3) The loan amount, with regard to government securities, may not exceed seventy-five per cent of the purchase price, or fifty per cent in respect of other securities.

(4) The securities purchased through an investment loan shall automatically serve as collateral for the lender without requiring a special agreement therefor.

(5) Investment loans may not be provided
   a) for the purchase of shares which are issued by the lender,
   b) for the purchase of shares which are issued by a single member limited liability company owned by the lender,
   c)
   d) to a company in which the lender holds a share of ten per cent or more.

Section 157.

The lender must demand additional collateral security to cover any decrease during the life of the loan in the list price of the investment instruments financed by the loan. In the event of the debtor’s failure to supply additional security - if it drops below the threshold specified in the contract - within two business days, the lender shall be entitled to cancel the contract effective immediately.

Deferred Financial Settlement

Section 158.

(1) An investment service provider, exclusive of securities intermediaries, may provide deferred payment arrangements to their clients.

(2) Deferred financial settlement shall be allowed only in connection with the transactions in which the investment service provider participates as an intermediary, and in connection with the placement of securities where the investment service provider participates as an agent for the buyer, or if involved in the placement procedure itself. With respect to deferred payment arrangements provided for subscription, the investment service provider shall pay the installments on behalf of the client to the special deposit account when due.

Section 159.

(1) Financial settlement may be deferred for maximum fifteen days from the original payment date stipulated for the client.

(2) The securities purchased under deferred payment arrangement shall serve as collateral for the investment service provider until the purchase price is paid in full. The investment service provider must demand security when providing deferred payment arrangements for the purchase of other investment instruments.

Outsourcing

Section 160.

(1) In due observation of the provisions on data protection, investment service providers and commodities brokers shall be authorized to outsource, investment services and activities auxiliary to
investment services and commodity exchange services, as well as those mandatory activities prescribed by law that involve the management, processing and storage of data.

(2) The outsourcing service provider must satisfy - to a degree corresponding to the risk - the personnel, equipment and security requirements concerning outsourced activities that are prescribed by law for investment service providers and commodities brokers.

(3) Upon entering into an outsourcing contract, the investment service provider and the commodities broker shall notify the Commission within two days
   a) of the contract executed,
   b) the name and address (corporate or residence) of the outsourcing service provider,
   c) the duration of outsourcing.

(4) The outsourcing contract shall contain the following:
   a) demonstration that the rules on data protection have been obeyed;
   b) the outsourcing contractor’s consent to the investment service provider’s and the commodities broker’s internal control of the outsourced activities, its external auditor, and on-site and off-site control performed by the NBH and the Commission;
   c) the outsourcing service provider’s responsibility for performing the activity at an appropriate level and the prospect of immediate cancellation of the contract by the investment service provider or the commodities broker in the event of a repeated or serious violation of the contract on the part of the outsourcing service provider;
   d) the detailed requirements for the quality of performance of the activities that is expected of the outsourcing service provider;
   e) the rules to be applied in order to avoid inside trading on the part of the outsourcing service provider.

(5) The investment service provider and the commodities broker must have an action plan developed to manage extraordinary situations arising from performing activities that differ from those stipulated in the contract on outsourcing activities.

(6) At least once a year, the investment service provider’s and the commodities broker’s internal control must inspect the performance of the outsourced activity and ascertain that it is in compliance with the provisions of the contract.

(7) The investment service provider and the commodities broker is responsible for the fact that the outsourcing service provider is performing the activity in compliance with the legal regulations and with due care and attention. The investment service provider and the commodities broker must immediately report to the Commission if the performance of the outsourced activity violates the law or the contract.

(8) An outsourcing service provider that performs activities for several investment service providers and commodities brokers at one time must, in due observation of the provisions on data protection, separately handle the facts, data and information of which it thereby gains knowledge.

(9) The outsourcing service provider may employ a subcontractor if their contract - which must be approved by the investment service provider or the commodities broker - contains clauses that permit the Commission, the NBH and the investment service provider’s and the commodities broker’s internal control and auditor to oversee the outsourced activities.

(10) Neither the executive officer of the investment service provider or the commodities broker nor his close relative shall be permitted to hold any interest in the outsourcing service provider, nor may the executive officer of the investment service provider or the commodities broker or his close relative be contracted to perform outsourced activities.

(11) Investment service providers and commodities brokers must indicate the outsourced activities and the service provider performing such activities in the standard agreement.

Chapter XVII

SPECIAL PROVISIONS CONCERNING SECURITIES DEPOSITS

Securities Deposit
Section 161.

(1) The provisions of this Chapter shall apply to all instances when certificated securities are deposited with an investment service provider or a clearing house (for the purposes of this hereinafter referred to collectively as 'custodian') in connection with providing the services defined in Paragraphs a) and b) of Subsection (2) of Section 81 for safe-keeping, custody or any other investment-related services, of which safe-keeping or custody is a part.

(2) Depositing securities shall be subject to the decision of the issuer or the holder of the securities.

(3) Deposited securities shall be placed into individual or collective custody accounts. In individual accounts the securities deposited are recorded individually by their serial numbers, and when the account is terminated the custodian shall be liable to return the same exact securities to the depositor. As for collective accounts, the securities are categorized according to their series and quantity (number of certificates of the same face value), and the custodian shall return to the depositor securities of the same series and quantity as deposited when the account is terminated.

(4) Registered negotiable securities, without a statement of endorsement or with a statement of endorsement that contains the name of the beneficiary (full endorsement), may only be placed into individual deposit accounts. Unless expressly instructed by the depositor, the custodian shall be entitled to place bearer securities, as well as registered securities with a statement of endorsement that does not indicate the name of the beneficiary (blank endorsement) into collective accounts.

Section 162.

(1) Custodians shall keep separate records of securities placed into individual deposit accounts.

(2) Custodians shall keep records of securities deposited into collective accounts according to series and shall handle them separately from their own assets. A custodian must, at all times, have stocks of securities on hand corresponding with the class and series, and the combined par value of the securities of each class and series his holding in collective deposit accounts. In the event of shortage in the stocks of securities on hand, claims arising from securities placed into collective accounts of the same series shall be satisfied as commensurate for the corresponding amount of securities originally deposited.

Section 163.

(1) Instruction concerning securities placed into deposit accounts shall be accepted only from the depositor or from a person duly authorized by the depositor. The custodian shall be allowed to use any securities deposited in his care only as instructed by the depositor.

(2) The procedures for the client to convey instructions regarding his deposit shall be stipulated in the deposit contract. The custodian, before carrying out any instructions, shall be required to check whether it is made in compliance with the relevant provisions.

(3) The custodian shall be permitted to restrict a client's access to his account subject to specific time limits or quantitative criteria only to the extent absolutely necessary for technical reasons. The form and extent of such restrictions must be laid down in the deposit contract.

Section 164.

A custodian shall be permitted to subcontract the services of another custodian with respect to the securities placed in his safe-keeping solely upon the express prior consent of the depositor made specifically for the other depositary involved. With respect to collective accounts the client's consent is not required for the custodian to transfer the securities placed in his safe-keeping to the care of a clearing house.
Section 165.

(1) The custodian shall record the securities placed in collective accounts under securities deposit accounts for each depositor that is to contain the identification data of the depositor and the series and quantity of securities held by the client in question. The securities placed in individual accounts shall be properly recorded, containing the particulars of the depositor and the description of the securities.

(2) Custodians shall inform their clients concerning the composition and the quantity of securities on their accounts in the manner and at the intervals specified under contract. The custodian shall be required to supply an account statement, containing the data and information specified above, upon the client's request with respect to any point in time or period.

Section 166.

Securities deposited into a collective deposit account may be conveyed by way of transfer to another account, or may be encumbered by attachment. When transferred to another account the provisions on the transfer of dematerialized securities shall apply mutatis mutandis.

Section 167.

Upon an issuer placing securities which are part of a series, either one by one or in a consolidated denomination, into the care of a custodian under the name of the investors acquiring them, the custodian shall open a deposit account under the name of the custodian designated by the investors, and from this point forward this custodian shall serve as the depository of the holders of such securities, whereby the custodian with whom the issuer has deposited the securities shall serve as depository of the custodian. These deposit accounts and secondary-accounts shall be subject to the provisions of this Chapter, with the exception that the holders of these securities shall be entitled to take possession of their securities under the terms and conditions stipulated by the issuer in the issue prospectus.

Chapter XVIII

SECURITIES LENDING AND/OR BORROWING

Section 168.

(1) Investment service providers, investment fund managers and clearing houses may lend their own securities and the securities which are part of the portfolio they manage. Furthermore, investment service providers may participate as intermediaries in the lending and/or borrowing of securities which are deposited with them or recorded under securities accounts which they maintain. The lender must have unrestricted control of the securities involved in any lending transaction. Any security that is non-transferable or is subject to any restrictions in terms of marketing, or that is subject to any right of preemption, purchase or repurchase, and that is pledged in security for a collateral or lien cannot be involved in lending or borrowing transactions. Registered certificates of securities may be lent only with blank endorsement.

(2) Upon the lending of securities the title of ownership shall be conveyed to the borrower.

(3) Securities lending agreements must be concluded for specific terms. The duration of securities lending arrangements cannot be more than one year; any stipulation made to the contrary shall be null and void.

(4) The lender of securities, or the investment service provider participating in the lending transaction must demand adequate security for the transaction. If the market value of the asset pledged in security drops below the market value of the securities to which it pertains to an extent specified in Subsection (6),
the borrower must provide additional security to keep the level of collateral consistent with the market value of the securities borrowed.

(5) In the event of the borrower's failure to supply additional security, the lender shall be entitled to cancel the agreement effective immediately and to enforce any claim he may have from the assets pledged in security.

(6) The value of security must be at least the market value of the securities borrowed.

Section 169.

If the borrower is unable to return the securities upon the expiration of the lending agreement, the minimum amount of damages payable to the lender shall be based upon the price in effect on the date of lending or on the date of expiration, whichever is higher.

Section 170.

(1) Investment service providers shall be able to lend securities which are deposited with them or recorded under securities accounts which they maintain on behalf of clients only if they have a securities lending and/or borrowing framework contract with the owners of such securities, or securities lending contracts. Securities lending and/or borrowing framework contracts and securities lending contracts cannot be incorporated into any other contract made between the investment service provider and the owner of securities.

(2) Securities lending and/or borrowing framework contracts and securities lending contracts must contain:
   a) the description, ISIN code and series of the securities lent or proposed to be lent;
   b) the quantity of the securities lent or proposed to be lent;
   c) with respect to framework contracts, the period to which the securities lending contract pertains;
   d) any restrictions concerning the duration of lending, or the actual duration of lending;
   e) lending charges and the commission of the investment service provider;
   f) a clause stipulating that the lender shall not be entitled to exercise the right attaching to the securities in question under the life of the contract;
   g) a clause stipulating that the securities in question cannot be shown under the lender's capital account under the life of the contract.

(3) When securities are lent under a framework contract, the investment service provider participating in the transaction shall notify the owner of the securities that his securities have been transferred under lending arrangements, indicating the quantity and the duration. Any investment service provider who fails to abide by the restrictions stipulated by the owner of the securities in question (the lender in fact), shall be subject to unlimited liability for damages caused by such negligence.

Section 171.

The relationship between an investment service provider that participates as an intermediary in the lending of his client's securities shall be governed by the provisions of the Civil Code pertaining to agency contracts. The provisions of the Civil Code on financial loans shall apply to all matters not regulated here that regard the lending of securities.

Chapter XIX

MANAGEMENT OF RISKS INHERENT IN INVESTMENT SERVICES

Equity Capital of Investment enterprises
Section 172.

(1) The amount of an investment enterprise's own funds may not be less than the minimum amount of subscribed capital prescribed in Subsection (3) of Section 90.

(2) If the amount of an investment enterprise's own funds falls below the minimum level prescribed in Subsection (1), the Commission shall give the investment enterprise a maximum of six months to satisfy the requirement specified in Subsection (1).

(3) If an investment enterprise fails to comply with the recapitalization obligation within the deadline specified under Subsection (2), the Commission shall order the investment enterprise to reduce its subscribed capital to the level of its equity capital.

(4) Where applicable, concurrently with ordering the reduction of subscribed capital the Commission shall amend the license of the investment enterprise in question, and shall limit its activities as consistent with the equity capital available.

Trading Book

Section 173.

(1) In order to determine capital requirement, investment service providers shall maintain a trading book in which they record investment and financial service operations, such as the positions of and the exposures related to, investment instruments and commodities from trading portfolios that are, in principle, exposed to market risks, including the operations between credit institutions, between credit institutions and investment enterprises, between credit institutions and the National Bank of Hungary, or between credit institutions or investment enterprises and the ÁKK Rt. with investment instruments (liquidity and risk management operations); as well as the selling, buying and swap transactions that credit institutions carry out with bonds of their own issue.

(2) The above-mentioned trading book shall contain the following positions and exposures:
   a) the position in investment instruments and commodities that were acquired by the investment service provider to make short-term capital gains realized from the difference between the purchase and sale prices or by fluctuation in interest rates as well as the hedging positions of such positions (trading positions), and any open position related to the investment service provider's contractual commitments in connection with other investment-related services, in particular when selling or buying investment instruments or commodities, also including the exposures from agency contracts;
   b) the exposures from late performance, open deliveries and over-the-counter transactions directly associated with positions that are to be recorded in the trading book;
   c) the exposures from repo and securities lending operations, if the instruments underlying such transactions are listed in the trading book;
   d) the exposures from reverse repo and securities borrowing operations if all of the conditions laid down in Points 1, 2, 3 and 5 or in Points 4 and 5 below are satisfied concurrently:
      1. the market value of exposures are determined daily in the manner prescribed in specific other legislation,
      2. if there are any changes in the value of the collateral security provided for the transaction, the quantity of the collateral shall be adjusted to reflect changes in the value of the securities,
      3. the agreement for position netting - concluded in a form approved by the Commission - contains a clause to stipulate that, in the event of non-performance by either party or upon the occurrence of any event stipulated by the parties, the claims and liabilities will be automatically and promptly set off,
      4. the other party to the transaction is a clearing house, a recognized (regulated) market, or an investment enterprise or credit institution that is established in a Zone A country,
      5. the purpose of the transaction is to achieve a short-term gain;
e) the fees, commissions, interests and dividends directly associated with transactions listed in the trading book as well as the deposits placed by the investment service provider in connection with stock exchange deals.

(3) If the hedging position defined under Paragraph a) of Subsection (2) is not exclusively for a position that is listed in the trading book and the ratio of coverage for such position cannot be determined clearly beyond reasonable doubt, the hedging position shall not be included in the trading book.

(4) The Commission shall approve the agreement for position netting by offsetting referred to in Point 3 of Paragraph d) of Subsection (2), if satisfied that the automatic and prompt offsetting of receivables and liabilities is not subject to legal ramifications in any way or form, and that the internal regulations and the procedural system of the investment service provider provide sufficient background for monitoring the legal aspects of these agreements.

(5) The investment service provider shall include in its internal rules and regulations the principles under which a transaction is listed in the trading book, and it shall consistently enforce such rules and regulations. The investment service provider shall be allowed to alter its listing principles only once in any given year. If so required by the prevailing circumstances, the Commission may authorize the use of such principles from a different date. The investment service provider shall explain and properly document any changes in the listing principles of the internal rules and regulations and shall disclose the original and the amended version of the said rules and regulations to the Commission.

(6) The investment service provider shall list investment instruments in the trading book in accord with its accounting policy.

(7) The valuation of positions and exposures listed in the trading book shall be in harmony with the valuation principles laid down in specific other legislation and with the corresponding valuation formulas.

(8) The transactions listed in the trading book must be valued in concert with their actual economic substance under the principle of prudential management, from the perspective of market risks.

(9) Unless otherwise prescribed by legal regulation, the market value of and the risk associated with any position and exposure listed in the trading book shall be assessed on a daily basis.

(10) The investment service provider shall operate an information, registration and valuation system that is serviceable to provide accurate and up-to-date information concerning the risks and capital requirements of the positions and exposures described in Subsection (2).

(11) An investment service provider shall have adopted adequate risk management facilities for the various types of commitments he has underwritten so as to define the liability limits and the maximum value criteria of commitments, the control of exposures and ways to minimize potential losses.

(12) The principles of risk management procedures, and their major components shall be approved by the board of directors of the investment service provider.

(13) The investment enterprise shall ensure the provision of the following in connection with the commitments underwritten by the institution or the risks inherent in its operations:

a) adequate weighting of risks;

b) develop and adopt proper threshold limits to accurately define risks;

c) develop a suitable system for regular and special reporting in relation to prevailing commitments;

d) operate special facilities for the management and control of risks separate from business operations;

e) develop a system for underwriting commitments, meeting all personnel and material criteria, in compliance with prudential management and legal requirements.

Section 174.

(1) Investment enterprises shall regularly valuate and assess their outstanding investment loans and other credits under deferred arrangements based on the rules and regulations drafted in compliance with the requirements prescribed in specific other legislation, a copy of which has been deposited with the Commission.
(2) To compensate for any - individually rated - lending and investment risk and country risk, the investment enterprise shall apply value adjustments and readjustments, as appropriate, and shall create, use and release provisions as appropriate, as defined in specific other legislation. The investment enterprise shall record such value adjustments and readjustments and provisions under other operating charges.

Solvency Margin and Capital Requirement of Investment Enterprises

Section 175.

(1) In order to maintain continuity in its operations and protect its investors, the investment enterprise shall maintain a solvency margin sufficient to cover any and all risks associated with its investment services and activities auxiliary to investment services. The solvency margin must not be allowed to fall below

a) the amount specified in Subsection (3) of Section 90,

b) the aggregate of the capital requirement, the extent of which is specified in specific other legislation, for the market risk of the positions and exposures listed in the trading book, for large exposures, and foreign exchange risks on the licensed activity as a whole as well as the risks inherent in lending operations and country risks,

c) twenty-five per cent of the operating expenses of the previous fiscal year at any time.

(2) The solvency margin of the investment enterprise must be at least the maximum amount specified under Paragraphs a)-c) of Subsection (1) at any given time.

(3) The investment enterprise must maintain a capital adequacy ratio of at least eight per cent - as defined in specific other legislation - to cover the risks associated with assets that are not listed in the trading book and with off-balance sheet items.

(4) The solvency margin of investment enterprises shall be determined and calculated as defined under Schedule No. 5 in the CIFE with the understanding that the capital requirement referred to in Paragraph b) of Subsection (1) shall be equal to the solvency margin defined in Point 15 of Schedule No. 5 in the CIFE.

(5) If the solvency margin is less than one hundred twenty per cent of the capital requirement as specified in Subsection (2) of Section 76 of the CIFE and in Paragraph b) of Subsection (1) of this Section, the Commission must be notified of all payments made in connection with the junior subordinated loan capital contained in Point 19 of Schedule No. 5.

Section 176.

In the event of any major change in the operations of an investment enterprise, as compared with the previous fiscal year, the Commission may order the investment enterprise to review its solvency margin if defined according to Paragraph c) of Subsection (1) of Section 175.

Section 177.

The investment enterprise shall calculate - by the method prescribed in specific other legislation - the amount of capital required to cover the positions and exposures listed in the trading book on a daily basis.

Large Exposures

Section 178.
(1) The investment service provider shall continuously monitor its exposures in connection with investment services provided to a client or a group of connected clients. The total value of exposures in connection with a single client or a group of connected clients shall be determined by totaling the risks of positions and exposures committed to a single client or group of connected clients.

(2) Large exposure means when the total value of exposures to a client or a group of connected clients is in excess of ten per cent of the solvency margin of the investment service provider.

(3) The combined value of the investment service provider's exposures to a single client or a group of connected clients must not exceed twenty-five per cent of its solvency margin.

(4) As regards the investment service provider's exposures to a client or a group of connected clients that is affiliated to the investment service provider, the combined value of such exposures - by way of derogation from Subsection (3) - must not exceed twenty per cent of its solvency margin.

(5) The aggregate amount of large exposures by an investment service provider must remain below eight times the amount of its solvency margin.

(6) As regards large exposures, the sureties and guarantees provided by the investment service provider as well as any of its commitments and contingent liabilities - with the exception of futures transactions - shall be applied at fifty per cent value, while futures transactions shall be applied as adjusted by the specific risk factors defined in specific other legislation on the regulations of capital adequacy.

(7) The threshold limits defined under Subsections (3)-(5) may be exceeded, if it results solely from the positions and exposures that are listed in the trading book.

(8) With regard to the credit institutions offering investment services, the combined value of exposures to a single client or a group of connected clients shall be defined on the basis of the risks calculated for the positions and exposures listed in the trading book together with the risks calculated in accordance with the provisions of the CIFE.

(9) The provisions of Subsections (2)-(5) shall not apply to exposures of an investment enterprise to its parent company, another subsidiary of its parent company or to the investment enterprise’s own subsidiary if the companies involved are subject to supervision on a consolidated basis that includes the investment enterprise as well.

**Provisions**

**Section 179.**

(1) Investment enterprises shall create general reserves from their taxed profits prior to paying dividends.

(2) The amount to be set aside from the investment enterprise's taxed profits under general reserves shall be placed at ten per cent.

(3) Upon request, an investment enterprise may be exempted by the Commission from the obligation to create general reserves, if its solvency margin amounts to one hundred and fifty per cent of the capital requirement described in Section 175 and it has no negative accumulated profit reserves.

(4) An investment enterprise shall be allowed to pay any dividend if it has set aside general reserves in that fiscal year, or if exempted by the Commission from the obligation to create general reserves.

(5) An investment enterprise may only use its general reserves to cover operating losses, if any. An investment enterprise may transfer all or part of its profit reserve into its general reserves.

**Restrictions Pertaining to Long-term Financial Investments**

**Section 180.**

(1) Any securities acquired by an investment enterprise in the course of operations shall be construed as an investment if held, directly or indirectly, as financial fixed assets for over one year.
In the context of Subsection (1), indirect holding shall mean when the investment enterprise has transferred securities to another person under a lending or repo arrangement, or any other agreement or series of agreements with a repurchase option, on condition that investment enterprise has reserved all rights attaching to such securities.

An investment firm may only invest in the shares - to be held as financial fixed assets - of an associated enterprise that is connected directly to its investment service operations, or in credit institutions, investment firms, commodities brokers, insurance and reinsurance companies, clearing corporations, exchanges and investment fund managers.

Above and beyond the provisions laid down in Subsection (3), securities intermediaries may invest their liquid assets solely in government securities.

An investment enterprise may not acquire any share in a corporation entailing unlimited liability.

The amount of investments made by an investment enterprise may not exceed one hundred per cent of its solvency margin.

Section 181.

With the exception specified in Subsection (2), an investment enterprise may acquire title to real property only if it directly serves its operations.

An investment enterprise shall alienate any real property it has acquired under Subsection (2) of Section 56 of the Bankruptcy Act or under the JEA, within three years.

For the purposes of Subsection (1), the real estate or part of a real estate which is indispensable for the investment enterprise's business activities, uninterrupted and smooth operations or is required for providing the employees with services to improve working conditions, shall be construed as directly used for investment service operations.

The total amount paid for real estate held by an investment enterprise must not exceed the solvency margin of the investment enterprise.

Chapter XIX/A

SUPERVISION ON A CONSOLIDATED BASIS

Supervision of Investment Enterprises on a Consolidated Basis

Section 181/A.

Every investment enterprise

a) that has a credit institution, financial institution or investment enterprise as a subsidiary or that holds a participation in such institutions, or

b) whose parent company is a financial holding company

shall be subject to supervision on a consolidated basis.

Supervision on a consolidated basis shall apply to any investment enterprise that is subject to supervision on a consolidated basis and

a) to the credit institutions, financial institutions, investment enterprises and auxiliary companies specified under Paragraph a) of Subsection (1) in which the aforementioned investment enterprise has a dominant interest or participation,

b) to any financial holding company under Paragraph b) of Subsection (1) and to any credit institution in which it has a participation,

c) to any financial holding company under Paragraph b) of Subsection (1) and to any financial institution, investment enterprise and auxiliary company in which it has a dominant interest or participation.
Section 181/B.

(1) The Commission shall have competence, pursuant to Subsection (1) of Section 181/A, to exercise supervision over Hungarian investment enterprises on the basis of their consolidated financial situation.

(2) The Commission shall not be required to play a supervisory role in relation to the prudent operation of a financial holding company, mixed-activity holding company, foreign investment enterprise, financial holding company and mixed-activity holding company standing alone.

(3) The Commission may decide at the request of the investment enterprise referred to in Subsection (1) of Section 181/A that a credit institution, financial institution, investment company or auxiliary company need not be included in the consolidation:

a) if it is situated in a third country in which there are legal impediments to the transfer of the necessary information,

b) if it would be inappropriate or misleading (for example, if the dominant interest or participation is likely to be held for less than one year),

c) if it is of negligible interest as far as the objectives of the consolidated supervision of credit institutions are concerned if the balance-sheet total and the sum of off-balance sheet items, calculated according to Subsection (6) of Section 178 of the CMA, of the company that should be included is less than the smaller of the following two amounts: 1 per cent of the balance-sheet total of the parent company or the company that holds the participation or two billion five hundred million forints.

(4) If several companies together reach the smaller of the two amounts specified in Paragraph c) of Subsection (3), they shall no longer be treated as of negligible interest and shall be included in supervision on a consolidated basis exercised by the Commission.

(5) If the Commission finds any evidence in documents or in the course of on-site inspection to substantiate a close link, it may declare any investment enterprise registered in Hungary subject to supervision on a consolidated basis or may decide to extend consolidated supervision to any enterprise.

(6) The Commission may authorize an investment enterprise that is not included in the scope of supervision on a consolidated basis under Subsection (1) of Section 181/A to meet the criteria for the calculation of the solvency ratio and for the control of large exposures in compliance with the provisions of this Chapter, whether or not on a consolidated basis with a subsidiary of the investment enterprise’s parent company that is registered in Hungary and that is under the dominant influence of the parent company or in which the parent company has a participation.

Prudent Operation of Investment Enterprises Subject to Supervision on a Consolidated Basis

Section 181/C.

(1) The investment enterprise subject to supervision on a consolidated basis [Paragraph a) of Subsection (1) of Section 181/A] or the financial holding company [Paragraph b) of Subsection (1) of Section 181/A] shall be responsible to ensure the prudent operation of the companies it controls, including compliance with the requirements for the calculation of the solvency ratio and for the control of large exposures.

(2) The boards of directors of an investment enterprise or financial holding company that is subject to supervision on a consolidated basis may instruct the board of directors of the credit institution, financial institution, investment enterprise and auxiliary company in which it has a dominant influence to observe and enforce the regulations pertaining to supervision on a consolidated basis, and the boards of directors must follow these instructions.

(3) The board of directors of an investment enterprise that is subject to supervision on a consolidated basis must indicate which of its executive members is responsible for the prudent operation of the companies in which it has a dominant influence.

(4) The supervisory board of an investment enterprise that is subject to supervision on a consolidated basis shall provide for the proper operation of the internal control system of any credit institution, financial enterprise and investment enterprise it controls.
Exposure and Solvency of Investment Enterprises Subject to Supervision on a Consolidated Basis

Section 181/D.

(1) The investment enterprise subject to supervision on a consolidated basis shall comply on a consolidated basis with the companies referred to in Subsection (2) of Section 181/A with restrictions stipulated in Section 178 concerning large exposures, in Subsection (6) of Section 180 concerning investments and in Subsection (4) of Section 181 concerning real estate investments.

(2) An investment enterprise that is subject to supervision on a consolidated basis shall continuously maintain a solvency index of at least eight percentage points, as calculated on a consolidated basis with the formula prescribed by law, in conjunction with the companies referred to in Subsection (2) of Section 181/A and shall have enough capital, calculated on a consolidated basis, to cover the positions and exposures recorded in the trading book, exposure to a single client, large exposures, and the commodity risks and foreign exchange risks extant in all of the authorized activities. The formula for calculating the solvency margin on a consolidated basis is contained in specific other legislation.

(3) Calculations for meeting the requirements for solvency and for the control of exposures on a consolidated basis shall be made by the investment enterprise or financial holding company that is subject to supervision on a consolidated basis. The financial holding company must furnish the calculations to the investment enterprise subject to supervision on a consolidated basis. The subsidiary investment enterprise of a financial holding company that is subject to supervision on a consolidated basis shall separate the records of data used for the calculations on a consolidated basis and shall not use them for any other purpose.

(4) Where an investment enterprise is under a dominant influence or if a company holds a participation in an investment enterprise that has a dominant influence or participation in another credit institution or in a financial institution, investment enterprise or auxiliary company (hereinafter referred to as ‘multiple dominant influence or participation’), calculations on a consolidated basis concerning the capital adequacy and risk exposure rules must be made separately by each investment enterprise and financial holding company that is subject to supervision on a consolidated basis.

(5) In the case of multiple dominant influence or participation, the Commission may authorize that only the highest-level Hungarian-registered investment enterprise or financial holding company has a dominant interest or participation in the Hungarian investment enterprise that is to be exempted, involves the investment enterprise to be exempted in the calculations on consolidated exposure and capital adequacy, and the solvency margin of the companies under multiple dominant influence or participation is properly distributed among the companies involved.

Methods that Can Be Used in Calculating Compliance on a Consolidated Basis with the Regulations on Prudent Operations

Section 181/E.

(1) The methods set out in the Accounting Act shall be used for the calculations needed to ascertain the consolidated risk exposure and capital adequacy data.

(2) The Commission may authorize a parent company to include any of its subsidiaries in the calculation for consolidated compliance with the capital adequacy and risk exposure rules according to the regulations contained in the Accounting Act on the consolidation of joint companies in the ratio of their
capital share, if a contract guarantees that the parent company’s liability is limited to its ownership share and if the financial position of the co-owners is satisfactory.

(3) Every credit institution, financial institution, investment enterprise or auxiliary company that holds a participation shall be included in the calculation for consolidated compliance with the capital adequacy and risk exposure rules according to the regulations contained in the Accounting Act on the consolidation of joint companies if it is controlled by an investment enterprise that is subject to supervision on a consolidated basis jointly with one or more other companies that are not subject to supervision on a consolidated basis and if its liability is limited to its ownership share.

(4) Credit institutions, financial institutions, investment enterprises or auxiliary companies that hold participations shall be included in the calculation for consolidated compliance with the capital adequacy and risk exposure rules according to the regulations contained in the Accounting Act on the consolidation of associated companies with the difference defined in Subsections (2) and (3).

(5) Where dominant influence is exercised without any capital involvement, the method of consolidation shall be determined by the Commission.

(6) When calculating the solvency margin on a consolidated basis, the book value of the participation in a company exempted under Subsection (3) of Section 181/B shall be deducted as well as the book value of any subordinated loan capital provided to such a company.

Section 181/F.

(1) Credit institutions, financial institutions, investment enterprises or auxiliary companies in which an investment enterprise or financial holding company that is subject to supervision on a consolidated basis has a dominant interest or participation shall be required to supply to the investment enterprise or financial holding company all data and information necessary for consolidated supervision. The investment enterprise or financial holding company that is subject to supervision on a consolidated basis must manage such data and information separately and in compliance with the regulations on data protection.

(2) Unless otherwise prescribed by legal regulation, the Commission shall be authorized to request data and information on the credit institutions, financial institutions, investment enterprises or auxiliary companies in which an investment enterprise or financial holding company that is subject to supervision on a consolidated basis has a dominant interest or participation, as it may be necessary to exercise supervision on a consolidated basis.

(3) In connection with its duties relating to supervision on a consolidated basis, the Commission shall be authorized to request information from the persons indicated below, whether directly or through the investment enterprise that is subject to supervision on a consolidated basis, and such persons shall be compelled to supply such information unless otherwise prescribed by legal regulation:

a) persons with a close link to the investment enterprise that is subject to supervision on a consolidated basis,

b) persons with a close link to the parent company of the investment enterprise that is subject to supervision on a consolidated basis or with other persons having a participation in the investment enterprise, and

c) any credit institutions, financial institutions, investment enterprises and auxiliary companies exempted under Subsection (3) of Section 181/B.

(4) The investment enterprises and financial holding companies that are subject to supervision on a consolidated basis shall have sufficient information systems for providing the data and information required for exercising supervision on a consolidated basis and internal control systems that ensure the reliability of the disclosed data and information.

(5) If the parent company of an investment firm that is subject to supervision on a consolidated basis is a mixed-activity holding company, the transactions between this mixed-activity holding company and the companies to which supervision on a consolidated basis also applies shall be supervised by the Commission. The investment firm that is subject to supervision on a consolidated basis shall have adequate risk management processes and internal control mechanisms, including accounting and reporting.
procedures, in order to identify, measure, monitor and control transactions as provided for above, which shall be subject to overview by the Commission. If the transactions are a threat to the financial position of the investment firm that is subject to supervision on a consolidated basis, the Commission shall take the necessary measures in order to rectify the situation.

Notification Requirement

Section 181/G.

(1) Any investment enterprise and financial holding company shall be required to forthwith notify the Commission concerning the close link referred to in Subsection (2) of Section 181/A and Subsection (3) of Section 181/F, including all changes therein.

(2) The notification requirement under Subsection (1) may be satisfied by the foreign financial holding parent company of a Hungarian-registered investment enterprise through its investment enterprise that is subject to supervision on a consolidated basis.

Supervisory Control

Section 181/H.

(1) The Commission shall be authorized to conduct inspections, on site or otherwise, at the companies referred to in Subsections (1) and (2) of Section 181/A for compliance with the provisions set out in Sections 181/A–181/G.

(2) The Commission shall be authorized to conduct inspections, on site or otherwise, at the persons referred to in Subsection (3) of Section 181/F to check the authenticity of the reports, data and information disclosed in connection with supervision on a consolidated basis.

The Commission’s International Cooperation with the Supervisory Authorities of Other Countries Regarding Supervision on a Consolidated Basis

Section 181/I.

(1) At the request of a supervisory authority of a third country, the Commission, having considered the availability of reciprocity or on the basis of a valid supervision cooperation agreement, may supply reports, data and information that may be necessary for exercising supervision on a consolidated basis to the supervisory authority of a third country if it is able to guarantee legal protection for the processing of such information that is equal to or better than the protection afforded under Hungarian law.

(2) At the request of the supervisory authority of a third country, the Commission, having considered the availability of reciprocity, may conduct the inspections specified in Section 181/H, or, if there is a valid supervision cooperation agreement, it may give its consent to the supervisory authority of the third country requesting consent or to an auditor or other expert designated by it to conduct the inspections.

Section 181/J.

(1) An investment enterprise that is a parent company shall be supervised on a consolidated basis by the supervisory authority of the Member State in which the investment enterprise is established.

(2) If the parent company of an investment enterprise is a financial holding company, supervision on a consolidated basis shall be exercised by the competent supervisory authority of the Member State in which the investment enterprise is established.

(3) If a Hungarian investment enterprise and an investment enterprise established in another Member State are subsidiaries of the same financial holding company, supervision on a consolidated basis shall be
exercised - with the exception set out in Subsection (4) - by the supervisory authority of the Member State in which the financial holding company is established.

(4) If a Hungarian investment enterprise and an investment enterprise established in another Member State are subsidiaries of the same financial holding company, and neither is authorized in the Member State in which the financial holding company is registered, supervision on a consolidated basis shall be exercised on the basis of the agreement between the supervisory authorities of the Member States concerned, including the one in which the financial holding company is registered. In the absence of an agreement, supervision shall be exercised by the supervisory authority that is supervising the investment enterprise with the largest balance sheet total or, if the balance sheet total is the same, by the supervisory authority that is supervising the investment enterprise first authorized.

(5) The supervisory authorities may depart from the provisions of Subsections (2) and (3) subject to an agreement between them.

(6) An agreement concluded under Subsections (4) and (5) must ensure the flow of information for the objectives of supervision on a consolidated basis as well as collaboration between the supervisory authorities involved.

(7) Where supervision on a consolidated basis is not exercised by the supervisory authority of the company that is a parent company, the supervisory authority of the parent company shall supply the supervisory authority exercising supervision on a consolidated basis with the information required for supervision on a consolidated basis.

(8) The Commission shall cooperate with the supervisory authorities of other Member States in exercising supervision on a consolidated basis.

(9) The Commission may supply reports, data and information to the supervisory authorities of other Member States as they are necessary for the objectives of supervision on a consolidated basis.

(10) At the request of the supervisory authority of another Member State, the Commission may conduct the inspections specified in Section 181/H, and it may give its consent to the supervisory authority requesting consent or to an auditor or other expert designated by it to conduct the inspections.

Section 181/K.

For the purposes of this Chapter and Paragraphs f) and g) of Section 391 and Point 1. m) of Schedule No. 10, ‘person’ shall mean any natural or legal person and unincorporated business association.

Chapter XIX/B

SUPPLEMENTARY SUPERVISION

Financial Conglomerates

Section 181/L

(1) According to this Act, a financial conglomerate is a group [Point 126 of Subsection (1) of Section 5] that meets the following conditions:
   a) at the head of the group:
      1. is an investment firm; or
      2. is a non-regulated entity, and the group's activities mainly occur in the financial sector within the meaning of Subsection (3); and
   b) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector; and
   c) the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant within the meaning of Subsection (4) or (5).
(2) The entity at the head of the financial conglomerate:

a) is a parent company in which none of the entities in the same financial conglomerate exercises a dominant influence or holds a participating share;

b) is a parent company with the largest balance sheet total if the financial conglomerate contains several parent companies that meet the criteria set out in Paragraph a);

c) is an entity with the largest balance sheet total of the entities in which none of the entities in the same financial conglomerate exercises a dominant influence or holds a participating share, and if none of the entities in the financial conglomerate qualifies as a parent company that meets the criteria set out in Paragraph a);

d) is an entity with the largest balance sheet total if none of the entities in the financial conglomerate meets the requirements set out in Paragraphs a)-c).

(3) The activities of a group in different financial sectors shall be deemed significant if the balance sheet total of the regulated and non-regulated financial sector entities in the group as a whole exceeds forty per cent of the combined balance sheet total of the group.

(4) Activities within a financial sector shall be deemed significant, if:

a) the average of the ratio of the balance sheet total of that financial sector to the balance sheet total of the financial sector entities in the group and

b) the average of the ratio of the solvency requirements of the same financial sector to the total solvency requirements of the financial sector entities in the group

exceeds ten per cent within the insurance sector and within the banking and investment services sector as well. For the purposes of these calculations the banking sector and the investment services sector shall be treated as a single sector.

(5) Cross-sectoral activities within the financial sector shall be deemed significant within the meaning of Subsection (4) if the balance sheet total of the smallest financial sector in the group exceeds one thousand six hundred billion forints.

(6) The Commission, in its capacity as the appointed coordinator, may - in agreement with the competent authorities concerned - regard a group as a financial conglomerate, and may apply the provisions contained in Sections 181/Q-181/R, if:

a) the size of its smallest financial sector exceeds five per cent:

1. relative to the average ratio calculated under Subsection (4); or

2. relative to the ratio of the balance sheet total of that sector to the balance sheet total of the financial sector as a whole; or

3. relative to the ratio of solvency requirements of that sector to the total solvency requirements of the financial sector as a whole; or

b) the market share exceeds five per cent in Hungary, measured in terms of the balance sheet total in the banking or investment services sectors and in terms of gross premiums written in the insurance services sector.

(7) If the ratios referred to in Subsections (3)-(5) fall below the thresholds specified therein, however, the limit specified in Subsection (3) reaches thirty-five per cent, the limit specified in Subsection (4) reaches eight per cent, and the limit specified in Subsection (5) reaches one thousand three hundred billion forints, then the group shall remain to be regarded a financial conglomerate for three consecutive years.

(8) If the Commission functions as the coordinator, it may decide - with the agreement of the competent authorities concerned - to terminate the supplementary supervision anytime during the three-year period referred to in Subsection (7).

(9) The calculations regarding the balance sheet shall be made on the basis of the aggregated balance sheet total of the entities of the group. For the purposes of this calculation, the entities of the group in which a participating share is held by another entity of the group shall be taken into account as regards the amount of their balance sheet total corresponding to the aggregated proportional share held by the group. In the case of dominant influence the consolidated accounts shall be used.

(10) For the purposes of this Chapter:

a) capital requirements of a credit institution shall cover:
1. the solvency margin if the solvency ratio level is defined at eight per cent, or the amount sufficient
to achieve the solvency ratio under Point 9 of Subsection (2) of Section 153 of the CIFE;
2. the amount by which the limits are exceeded as specified in Point 16 of Schedule No. 5 of the
CIFE and the capital requirements for country risks;
3. the positions and exposures recorded in the trading book and the capital requirement for the
exchange rate and commodities risk applied for the entirety of activities;
   b) investment firms shall be subject to the capital requirement defined in Subsection (2) of Section 175;
   c) the capital requirement of insurance companies shall be the minimum solvency margin referred to in
   Subsection (3) of Section 121 of the Insurance Act or the minimum guarantee fund referred to in Section
   126 of the Insurance Act, whichever is higher;
   d) the capital requirements of third-country regulated entities shall cover the minimum subscribed
   capital prescribed for authorization according to the laws of their home country.
   (11) Where a financial conglomerate is a subgroup of another financial conglomerate, the provisions of
this Chapter shall not apply to the financial conglomerate that is a subgroup.

**Supplementary Supervision**

*Section 181/M.*

(1) The objective of supplementary supervision is to exercise prudential supervision of entities at the
level of the financial conglomerate. Accordingly, the Commission, in exercising supplementary
supervision, shall oversee the exposures, intra-group transactions, solvency position, internal control
mechanisms and risk management processes of financial conglomerates at the group level.

(2) Supplementary supervision shall apply to every investment firm that is at the head of a financial
conglomerate:
   a) if it exercises dominant influence or holds a participating share in any of the regulated entities, at
   least one of which is an insurance company; or
   b) the parent company of which is a mixed financial holding company which has its head office in the
   European Union; or
   c) if it exercises dominant influence in an entity of the insurance services sector.

(3) Supplementary supervision shall include:
   a) every entity in the financial conglomerate;
   b) every investment firm in the financial conglomerate, the parent company of which is a regulated
entity that has its head office in a third country;
   c) every investment firm in the financial conglomerate, the parent company of which is a mixed
financial holding company that has its head office in a third country.

*Section 181/N.*

(1) If in accordance with this Chapter the Commission identifies an investment firm it has authorized as
being an entity or member of a group which may be a financial conglomerate, supplementary supervision
shall apply to this entity and group.

(2) In the interest of identifying a group as a financial conglomerate in accordance with Subsection (1),
the Commission shall:
   a) routinely examine the investment firms it has authorized to establish whether they are a member of a
group which may be a financial conglomerate;
   b) cooperate closely with the supervisory authorities of the regulated entities in the group;
   c) inform the competent authorities concerned, if it is of the opinion that a regulated entity that has a
registered office in Hungary is a member of a group which may be a financial conglomerate.

*Section 181/O.*
(1) The Commission shall provide for the supplementary supervision of the investment firm referred to in Subsection (2) of Section 181/M and Paragraphs b) and c) of Subsection (3) of Section 181/M, that have a registered office in Hungary.

(2) The Commission is not required to play a supervisory role in relation to mixed financial holding companies, third-country regulated entities in a financial conglomerate or unregulated entities not belonging to the financial sector, on a stand-alone basis.

(3) Where the Commission discovers the existence of a close link, whether on its own accord or in cooperation with the competent authorities concerned on the basis of documents or inspections, it may subject an investment firm that is registered in Hungary to supplementary supervision, or may extend supplementary supervision to an entity.

(4) The Commission may, by common agreement with the competent authorities concerned:
   a) exclude an entity - that has been exempted by the coordinator under Subsection (5) of Section 181/Q - from the calculations specified under Subsections (3)-(5) of Section 181/L at the request of the coordinator;
   b) take into account compliance with the thresholds envisaged in Subsections (3) and (4) of Section 181/L, at the request of the coordinator, for three consecutive years, and may disregard compliance with the thresholds if there are significant changes in the group's structure; or
   c) for the application of Subsections (3) and (4) of Section 181/L, may, in exceptional cases, replace the criterion based on the balance sheet total with parameters based on the income structure or off-balance-sheet activities or add one or both of these parameters, if it is of the opinion that these parameters are of particular relevance for the purposes of supplementary supervision.

Prudential Operation of Investment Firms Subject to Supplementary Supervision

Section 181/P.

(1) Investment firms subject to supplementary supervision and mixed financial holding companies shall be responsible for ensuring the prudent operation of the entities they control, including compliance with the provisions on exposures and capital requirements.

(2) Investment firms subject to supplementary supervision and mixed financial holding companies may instruct the entities in the financial sector in which they have a dominant influence to observe and enforce the regulations pertaining to supplementary supervision, and they must follow these instructions.

(3) The board of directors of an investment firm that is subject to supplementary supervision shall indicate the name of its member appointed to oversee the prudential operation of the entities in the financial sector in which it has a dominant influence.

Concentration of Exposures, Intra-Group Transactions and Capital Adequacy of Investment Firms Subject to Supplementary Supervision at the Level of the Financial Conglomerate

Section 181/Q.

(1) Investment firms subject to supplementary supervision are required to ensure that own funds are available at the level of the financial conglomerate which are always at least equal to the capital adequacy requirements and to have adequate capital adequacy policies at the level of the financial conglomerate.

(2) The type of data and information required under Subsection (9) for risk concentration and intra-group transactions shall be defined and calculations for supplementary capital adequacy requirements shall be carried out at least once a year, either by the investment firms subject to supplementary supervision or by the mixed financial holding company. The results of the calculation and the relevant data for the calculation shall be submitted to the coordinator by the investment firm which is at the head of the financial conglomerate or by the mixed financial holding company.
(3) Where the financial conglomerate is not headed by a regulated entity, or by a mixed financial holding company, the results of the calculation and the relevant data for the calculation referred to in Subsection (2) shall be submitted to the coordinator by the investment firm in the financial conglomerate identified by the Commission, in its capacity as the appointed coordinator, after consultation with the other relevant competent authorities and with the financial conglomerate.

(4) The mixed financial holding company shall hand over the calculations to the investment firm subject to supplementary supervision. Any investment firm that is subject to supplementary supervision and is a subsidiary of a mixed financial holding company shall be required to process the data necessary for the calculations separately, and may not use them for any other purpose.

(5) The Commission, in its capacity as the appointed coordinator, may decide not to include a particular entity in the scope of its supervision when calculating the supplementary capital adequacy requirements in the following cases:
   a) if the entity is situated in a third country where there are legal impediments to the transfer of the necessary information; or
   b) if the inclusion of the entity would be misleading with respect to the objectives of supplementary supervision; or
   c) if the entity is of negligible interest with respect to the objectives of the supplementary supervision.

(6) Prior to the decision of exclusion under Paragraph b) of Subsection (5) the Commission, in its capacity as the appointed coordinator, shall - with the exception of urgent cases - consult the competent authorities concerned.

(7) If several entities are to be excluded pursuant to Paragraph c) of Subsection (5), they must nevertheless be included in the calculation of supplementary capital adequacy requirements when collectively they are of non-negligible interest.

(8) In the case of an investment firm excluded under Paragraphs b) and c) of Subsection (5), the competent authorities of the Member State in which that investment firm is situated may ask the entity which is at the head of the financial conglomerate for information which may facilitate their supervision of the investment firm.

(9) The Commission, in its capacity as the appointed coordinator, after consultation with the other relevant competent authorities, shall identify the type of intra-group transactions and risk concentration to take into account for the calculations under Subsections (2)-(4). In these consultations they shall take into account the specific group and risk management structure of the financial conglomerate. In order to identify significant intra-group transactions and significant risk concentration, the Commission, in its capacity as the appointed coordinator, after consultation with the other relevant competent authorities and the conglomerate itself, shall define appropriate thresholds based on regulatory own funds and/or technical provisions.

(10) Insofar as no definition of the thresholds referred to in Subsection (9) has been drawn up, an intra-group transaction shall be presumed to be significant if its amount exceeds at least five per cent of the total amount of capital adequacy requirements at the level of a financial conglomerate.

(11) The formulas for calculations of capital adequacy requirements at the level of a financial conglomerate are contained in specific other legislation.

Risk Management Processes and Internal Control Mechanisms of Investment Firms Subject to Supplementary Supervision at the Level of the Financial Conglomerate

Section 181/R.

(1) Investment firms subject to supplementary supervision shall be required to have adequate risk management processes and internal control mechanisms in place at the level of the financial conglomerate.

(2) The risk management processes shall include:
   a) sound governance and management based on the policies and strategies at the level of the financial conglomerate with respect to all risks they assume;
b) adequate capital adequacy policies in order to anticipate the impact of their business strategy on risk profile and capital requirements;

c) adequate procedures to ensure that their risk monitoring systems are well integrated into their organization and that all measures are taken to ensure that the systems are consistent so that the risks can be measured, monitored and controlled at the level of the financial conglomerate.

(3) The internal control mechanisms shall include:

a) adequate mechanisms as regards capital adequacy to identify and measure all significant risks incurred and to appropriately relate own funds to risks;

b) procedures to identify, measure, monitor and control the intra-group transactions and the risk concentration.

(4) All investment firms included in the scope of supplementary supervision shall have adequate facilities for the production of any data and information which would be relevant for the purposes of the supplementary supervision, as well as means of security and internal control mechanisms to protect such facilities.

The Coordinator

Section 181/S.

(1) The Commission, as the competent authority, shall cooperate with the competent authorities of other Member States of the European Union in selecting a competent supervisory authority to coordinate and exercise supplementary supervision of entities of financial conglomerates (hereinafter referred to as “coordinator”).

(2) The Commission shall exercise the tasks of the coordinator if authorization to the investment firm that is at the head of the financial conglomerate was granted by the Commission.

(3) The Commission shall exercise the tasks of the coordinator if the financial conglomerate is not headed by a regulated entity and:

a) the parent company of the investment firm authorized by the Commission is a mixed financial holding company; or

b) where more than one regulated entity with a head office in the Community has as their parent the same mixed financial holding company with a head office in Hungary, and one of the investment firms in the financial conglomerate has its head office in Hungary; or

c) the financial conglomerate does not include an investment firm that has been authorized in the Member State where the head office of the mixed financial holding company is located, the most important financial sector in the financial conglomerate is the banking sector and the investment services sector considered together, and the investment firm with a head office in Hungary has the largest balance sheet total.

(4) The Commission shall exercise the tasks of the coordinator, if:

a) the financial conglomerate is headed by more than one mixed financial holding company with a head office in different Member States of the European Union and there is a regulated entity of the financial conglomerate in each of these States; or

b) the financial conglomerate is not headed by a parent company, and the most important financial sector in the financial conglomerate is the banking sector and the investment services sector considered together, and the investment firm with a head office in Hungary has the largest balance sheet total within the financial conglomerate.

(5) By way of derogation from Subsections (2)-(4) above, the Commission may exercise the tasks of the coordinator by common agreement with the competent authorities concerned, and appoint a different competent authority as coordinator, taking into account the structure of the conglomerate and the relative importance of its activities in different countries. Before taking its decision, the Commission shall give the conglomerate an opportunity to state its opinion on that decision.
Tasks of the Coordinator

Section 181/T.

(1) The tasks to be carried out by the Commission in the capacity of the coordinator shall include:
   a) supervisory overview and assessment of the financial situation of a financial conglomerate;
   b) gathering of data and information pertaining to the entities in a financial conglomerate and forwarding them to the competent authorities concerned;
   c) assessment of compliance with the rules on capital adequacy and of risk concentration and intra-group transactions within the financial conglomerate as set out in Section 181/Q;
   d) assessment of the financial conglomerate's structure, organization and internal control system as set out in Section 181/R;
   e) planning and coordination of supervisory activities in cooperation with the relevant competent authorities involved;
   f) other tasks, measures and decisions assigned to the coordinator and which are necessary in order to achieve the objectives of supervision;
   g) notification of the entity that is at the head of the financial conglomerate, the competent authorities concerned, the supervisory authority of the Member State where the mixed financial holding company is established and the European Commission when identifying a group as a financial conglomerate and of the appointment of a coordinator.

(2) In order to facilitate and establish supplementary supervision, the Commission, in its capacity as the coordinator, and the other relevant competent authorities, and where necessary other competent authorities concerned, shall have coordination arrangements in place.

Cooperation between Competent Authorities

Section 181/U.

(1) The Commission shall cooperate closely with the competent authorities concerned for supplementary supervision of entities in a financial conglomerate. The Commission shall provide data and information which is essential or relevant for the exercise of supplementary supervision to the other competent authorities.

(2) Cooperation with the competent authorities concerned shall cover the following items:
   a) identification of the group structure of the financial conglomerate, as well as of the competent authority exercising supervision of the regulated entities in the group;
   b) monitoring the financial conglomerate's strategic policies and objectives;
   c) monitoring the financial situation of the financial conglomerate, in particular on capital adequacy, intra-group transactions, risk concentration and profitability;
   d) identification of the major shareholders with qualifying participation and executive employees of the entities in the financial conglomerate;
   e) monitoring the organization of the financial conglomerate, risk management and internal control systems at the financial conglomerate level;
   f) procedures for the collection of information from the entities in a financial conglomerate, and the verification of that information;
   g) monitoring adverse developments in regulated entities of the financial conglomerate which could seriously affect the regulated entities;
   h) information on major sanctions and exceptional measures taken by the competent authorities.

(3) The Commission may also exchange information as may be needed for the performance of supplementary supervision with the central banks of Member States of the European Union, the European Central Bank and the European System of Central Banks.
(4) The Commission shall, prior to its decision, consult the competent authorities concerned with regard to the following items, where these decisions are of importance for other competent authorities' supervisory tasks:
   a) changes in the shareholders and/or executive employees, which require the authorization of the Commission;
   b) major sanctions or exceptional measures.
(5) By way of derogation from what is contained in Subsection (4), the Commission may decide not to consult in cases of urgency or where such consultation may jeopardize the effectiveness of the decisions. In this case, the Commission shall, without delay, inform the other competent authorities concerned.
(6) The Commission, in its capacity as the coordinator, may contact the competent authority of the country where the entity that is at the head of the financial conglomerate is established to exchange data and information concerning such entity.

Disclosure of Information

Section 181/V.

(1) Regulated and non-regulated entities within a financial conglomerate, and the natural persons involved shall supply all data and information which would be relevant for the purposes of calculations in the interest of supplementary supervision to the entity at the head of the financial conglomerate. The entity at the head of the financial conglomerate shall process such data and information separately, with due observation of data protection regulations.
(2) The Commission may approach the competent authorities concerned for data and information which would be relevant for the purposes of supplementary supervision.

Verification

Section 181/W.

(1) The Commission may verify, on site or otherwise, the data and information supplied by the entities in a financial conglomerate to the extent necessary for the purposes of supplementary supervision.
(2) The Commission may ask the competent authorities of other Member States of the European Union to have the verification carried out.

Section 181/X.

(1) If the financial conglomerate includes an investment firm referred to in Paragraphs b) and c) of Subsection (3) of Section 181/M, the competent authorities shall appoint the coordinator disregarding the third country parent company that is at the head of the financial conglomerate.
(2) The Commission, if serving as coordinator according to Subsection (1), shall examine as to whether the laws of that third country are in conformity with the provisions laid down in Directive 2002/87/EC of the European Parliament and of the Council. The Commission shall consult the competent authorities concerned, taking into account any applicable guidance prepared by the Financial Conglomerates Committee. Following consultations the Commission, in its capacity as the coordinator, shall make a decision regarding conformity.
(3) If the laws of the third country are in conformity with the provisions laid down in Directive 2002/87/EC of the European Parliament and of the Council, supplementary supervision of the financial conglomerate that is headed by the third country parent company of an investment firm referred to in Paragraphs b) and c) of Subsection (3) of Section 181/M shall not be exercised by the Commission.
(4) If the laws of a third country are not in conformity with the provisions laid down in Directive 2002/87/EC of the European Parliament and of the Council, the Commission, in its capacity as the
appointed coordinator, shall take over to exercise supplementary supervision, and shall take all appropriate
measures at its disposal.

Chapter XX

TERMINATION OF INVESTMENT ENTERPRISES WITHOUT SUCCESSOR, TRANSFER OF
ACCOUNTS

Section 182.

(1) The provisions of the Bankruptcy Act and the Companies Act shall be applied to both the voluntary
and the compulsory liquidation of investment enterprises, while the provisions of the Bankruptcy Act and
the FCA shall be applied to both the voluntary and the compulsory liquidation of investment enterprises
operating as branch offices, with the exceptions stipulated in this Act.

(2) A nonprofit company specified in the CIFÉ may be appointed as the liquidator of an investment
enterprise.

Voluntary Liquidation

Section 183.

(1) The Commission may pass resolutions declaring voluntary liquidation for investment enterprises.

(2) The Commission may pass a resolution declaring voluntary liquidation if

a) it revokes the investment enterprise's operating license and the investment enterprise decides to
terminate its corporate existence, unless the license is revoked pursuant to Paragraph c) of Subsection (1)
of Section 96 or

b) it learns that a foreign-registered investment enterprise's foundation permit, operating license or
permit to found an investment enterprise as a branch office, which had been issued by the supervisory
authority responsible for the place where foreign investment enterprise is established, has been revoked.

Section 184.

The Commission shall, within eight days, take measures to publish its resolution declaring voluntary
liquidation in the Cégközlöny [Companies Gazette] and shall simultaneously send it to the registrar of
companies.

Section 185.

(1) In the resolution declaring voluntary liquidation, the Commission shall designate the liquidator and
set the date for beginning the liquidation, which may not antedate the resolution.

(2) The Commission shall appoint a commissioner - if the voluntary liquidation begins after the date of
the resolution - at the same time it passes the resolution declaring the voluntary liquidation (if this has not
happened earlier), and may order a prohibition on all payments until the liquidation's starting date. The
commissioner's assignment shall last until the beginning of the voluntary liquidation.

Section 186.

The contractual liabilities of the investment enterprise under voluntary liquidation may be transferred to
another party.
Section 187.

The fee for the voluntary liquidation proceedings may not exceed 0.4 per cent of the book value of the assets shown in the investment enterprise's annual report pursuant to Paragraph a) of Section 70 of the Bankruptcy Act.

Compulsory Liquidation Proceedings

Section 188.

The Budapest Metropolitan Court has exclusive jurisdiction in conducting proceedings in connection with the compulsory liquidation of investment enterprises.

Section 189.

(1) Chapter II of the Bankruptcy Act may not be applied in respect of investment enterprises.
(2) With regard to investment enterprises, the liquidation proceedings may not be suspended.
(3) The provisions of Subsection (7) of Section 46 of the Bankruptcy Act may not be applied in respect of claims against investment enterprises.

Section 190.

(1) The Commission may initiate liquidation proceedings against an investment enterprise in the cases described in Subsection (2).
(2) The Commission shall initiate liquidation proceedings
   a) if the investment enterprise's operating license is revoked pursuant to Paragraph c) of Subsection (1) of Section 96 or
   b) in the case of a branch office, if insolvency proceedings have been initiated against a foreign-registered investment enterprise that is operating a branch office in Hungary.
(3) The investment enterprise shall forthwith notify the Commission if it learns that a liquidation proceeding has been initiated against it.

Section 191.

(1) The court shall communicate its decision concerning petitions for liquidation within eight days. A ruling ordering liquidation may be enforced, whether or not an appeal is lodged.
(2) When liquidation is requested by the Commission the court shall order it, whether the investment enterprise or the foreign-registered investment enterprise operating a branch office in Hungary is declared insolvent or not.
(3)

Section 192.

(1) If the Commission delegates a regulatory commissioner before the request for liquidation proceedings is submitted, the appointment shall remain in effect until the court appointed liquidator takes control of the case.
(2) The Commission may order a prohibition on all payments as of the date when the petition for liquidation is submitted, until the appointed liquidator takes control of the case.

Section 193.
(1) As regards the liquidation of an investment enterprise, the securities deposited by clients with the investment enterprise, their liquid assets on client accounts, and the securities in the clients' securities accounts and custody accounts shall not be included in the assets of the investment enterprise. Any money claim of a client arising during the liquidation proceeding shall be treated the same as the claim represented in the security, which it replaces.

(2) If any part of the assets of clients referred to in Subsection (1) cannot be returned to the clients, these claims shall be satisfied from the investment enterprise's assets following settlement of liquidation charges, by way of derogation from the provisions of Section 57 of the Bankruptcy Act governing the sequence of the satisfaction of claims.

(3) The provisions set forth in Subsections (1) and (2) shall not apply in respect to the securities and liquid assets belonging to a person having a qualifying holding in the investment enterprise or to an executive officer of the investment enterprise.

(4) As regards the administration of secondary securities in a liquidation proceeding, the principal securities shall be treated as if they were deposited by the clients as their own securities, and shall not be included in the liquidation proceedings.

(5) The provisions of Subsections (1)-(4) shall apply concerning the liquidation of a credit institution that is engaged in investment services and in activities auxiliary to investment services with respect to the securities and liquid assets of its clients, except if the credit institution keeps the clients' moneys in bank accounts rather than in client accounts.

(6) Regarding the liquidation of investment enterprises, the liabilities arising in connection with subordinated loan capital and junior subordinated loan capital specified under Schedule No. 5 of the CIFE shall be satisfied after settlement of the debt specified in Paragraph g) of Subsection (1) of Section 57 of the Bankruptcy Act.

Section 194.

The contractual liabilities of the investment enterprise under compulsory liquidation may be transferred to another party.

Section 195.

A representative of the Investor Protection Fund (hereinafter referred to as 'Fund') shall attend composition negotiations under the liquidation proceedings in the capacity of a creditor concerning the claims insured by the Fund to the extent of coverage, and shall be entitled to make any concessions in order to achieve a composition agreement.

Section 196.

A composition agreement shall be approved under the liquidation of investment enterprise subject to the Commission consent, where a composition agreement is required to continue the activities subject to licensing under this Act.

Section 197.

(1) The amount of the liquidation fee must not exceed 1.0 per cent of the aggregate amount of proceeds from sold assets and the receivables actually received. In the case of a composition, the liquidator's fee must not be more than 1.0 per cent of net value of the assets.

(2) Section 59 and Subsections (4)-(6) of Section 60 of the Bankruptcy shall not apply to liquidators.

Transfer of Accounts
Section 198.

(1) The transfer of contractual liabilities of investment service providers and commodities brokers shall be subject to authorization by the Commission. Where the transfer of accounts is facilitated by the voluntary or compulsory liquidation of the investment enterprise or the commodities broker in question, the provisions of the Civil Code on the assumption of debts shall apply, with the exception that the consent of the clients of the investment service provider or the commodities broker is not required for such transfer. The Commission's authorization for the transfer of contractual liabilities shall not substitute for the authorization of the Economic Competition Office in any way or form.

(2) Where accounts are transferred for reasons other than the voluntary or compulsory liquidation of the transferor investment service provider or commodities broker, the transferor investment service provider or commodities broker must notify the clients concerned prior to the operative date of the transfer agreement. Clients shall be entitled to request to have their accounts transferred to an investment service provider or commodities brokers, other than the one suggested in the notification.

(3) The costs and commissions arising in connection with the transfer of accounts cannot be charged to the clients.

PART SIX

INSIDER TRADING AND UNFAIR MANIPULATION OF MARKET PRICES

Chapter XXI

PROHIBITION OF INSIDER TRADING

Section 199.

(1) It is prohibited to trade in securities and exchange-traded instruments, whether on one’s own account or on behalf of others, by taking advantage of any insider information concerning the securities and instruments in question.

(2) Insider information shall mean information which has not been made public
   a) relating to the financial, economic and legal status of an issuer, investment service provider, commodities broker, guarantee underwriter or surety, or to any changes in such status, in particular, information concerning securities issue, major business deals and transactions, reorganization, potential bankruptcy or liquidation,
   b) relating to a natural or legal person holding a share of twenty-five per cent or more in the capital of an issuer or controlling votes in the same extent,
   c) relating to a company in which the issuer has a twenty-five per cent share or higher, or controlling votes in the same extent,
   d) relating to the securities market, such as any plans to acquire participating interest in a public limited liability company, conclusion of agency contract, preliminary decision concerning sale or purchase, change in exchange rate affecting Hungarian forints and other currencies, syndicate agreement among owners, voting arrangements,
   e) relating to plans and arrangements made for the transfer of securities from private placement and offering them publicly to investors without any pre-selection process, and
   f) relating to production of exchange-traded commodities, their stocking, official intervention in terms of prices, production and export subsidies, fluctuations in prices,

   which, if it were made public, would be likely to have a significant effect on the value or price of the securities or exchange-traded instruments in question.

Insider Person
Section 200.

Insider person shall mean

a) any director or executive officer, supervisory board member of an issuer, a legal person or unincorporated business association, in which the issuer holds a share or voting rights, directly or indirectly, of twenty-five per cent or more;

b) any executive officer, supervisory board member or director of a legal person or unincorporated business association who holds, directly or indirectly, a share or voting rights of twenty-five per cent or more in an issuer;

c) any person who was engaged in some form of employment relationship with an issuer within six months prior to using any insider information obtained in the course of such employment;

d) any director or executive officer of an organization that has, in any way or form, been engaged in the placement of securities or the organization of a public purchase offer as specified under Chapter VII as well as any employee of the issuer or an organization participating in the issuing and marketing who had had access to insider information during his employment, for a period of one year after being placed on the market;

e) any natural person holding a share, directly or indirectly, of ten per cent or more in the capital of an issuer;

f) any executive officer, supervisory board member or director of a securities intermediary credit institution;

g) any close relative living under the same roof with the persons referred to in Paragraphs a), b) and d)-f);

h) any person empowered to act in the name of any company owned by the insider persons referred to in Paragraphs a)-g), or in the name of a company they control.

Section 201.

In addition to what is defined in Section 200, insider person shall also mean a person being the recipient of insider information, or having obtained such information in any other way under the full knowledge of it being insider information.

Section 202.

(1) Executive employees of the issuer shall not be allowed to enter into any transaction involving the securities issued by their employer

a) from the balance sheet date of the year of issue until the publication of the annual account by way of the means specified under Subsection (5) of Section 37, unless the securities are offered to the public,

b) within a thirty-day period preceding the filing date prescribed for the semi-annual flash report if the issuer prepares one,

c) within a fifteen-day period preceding the filing date prescribed for the quarterly flash report if the issuer prepares one,

In the cases of Paragraphs b) and c), the restriction shall be lifted on the day of publication of the flash report by way of the means specified in Subsection (5) of Section 37. This provision shall also apply to employees of the issuer and of the persons referred to in Paragraph e) of Section 200 who have participated in the preparation of the balance sheet.

(2) The bankruptcy trustee, the receiver, the fiduciary or the liquidator cannot engage in any transaction involving securities issued by the person adjudicated in the proceeding under their control.

Insider Trading

Section 203.
(1) Insider trading shall mean when an insider person, acting in his name or on behalf of other to gain advantage for himself or others
   a) carries out any transaction involving securities or exchange-traded instruments to which the insider information pertains;
   b) commissions another person to carry out transactions involving such securities or exchange-traded instruments; or
   c) makes a suggestion to another person for the buying or selling such securities or exchange-traded instruments.
(2) Conveyance of insider information to a person shall be treated the same as insider trading.
(3) Within the meaning of this Section trading shall be understood as marketing and placement.

Section 204.

It shall be deemed insider trading when an insider person
   a) carries out a transaction without the involvement of an investment service provider, or
   b) is a bankruptcy trustee, receiver, fiduciary or liquidator, and has sold the securities of an issuer under bankruptcy, liquidation or voluntary dissolution in order to satisfy the claims of creditors.

Section 205.

(1) When an insider referred to in Section 200 is involved in a transaction, whether carried out by himself or by an agent, concerning securities issued by an organization with which he engaged in a relationship specified under Section 200, he shall notify the Commission within two days of the transaction date and publish it by way of the means specified under Subsection (5) of Section 37.
   (2) The notification shall specify the description of the securities to which the transaction pertains, their quantity and price, the transaction date and the name of investment service provider carrying out the transaction.

Chapter XXII
PROHIBITION OF UNFAIR MANIPULATION OF MARKET PRICES

Section 206.

(1) It is forbidden to enter into any transaction that involves unfair manipulation of market prices.
   (2) Unfair manipulation of market prices shall mean any conduct of a person to knowingly
       a) violate the requirement of publication of information relating to the capital markets,
       b) communicate or spread unfounded or misleading information,
       c) transact business back and forth with the same persons or with affiliated persons repeatedly involving the securities or exchange-traded instruments,
       d) engage in fictitious transactions,
       e) misuse knowledge of the exchange trading system or of trading customs and rules in regular commerce, or
       f) intervene in market price trends in any other way

   aimed at achieving prices for which there is no adequate and reasonable justification under the information that is available to the public and which may persuade other market makers to make specific moves that may substantially destabilize the prices of securities and exchange-traded instruments.
   (3) Any person commissioning, convincing or persuading another person to engage in the conduct specified in Subsection (1) shall also be treated as unfair manipulation of market prices.
   (4) It shall not be treated as unfair manipulation of market prices when an issuer places an order for the buying or selling of his own securities - as announced in advance specifying the objective, the quantity
and the estimated time limit - to maintain the price of his securities and to achieve balance in market conditions, and if the results of the process are made available to the public in accordance with the rules governing publication. Publication shall be made by way of the means specified under Subsection (5) of Section 37.

**PART SEVEN**

**PROTECTION OF INVESTORS**

Chapter XXIII

**REGULATIONS ON THE PROTECTION OF INVESTORS**

_Section 207._

(1) In the cases as defined in Subsection (1) of Section 55 and in Subsections (1) and (2) of Section 203, the public prosecutor may file legal action against an issuer and an investment service provider, or against an insider person to contest the validity of any contract involving securities offered by supplying deceptive information or that is concluded under insider trading. The court's decision, if declaring such contracts annulled, shall apply to any and all contracts affected by deceptive information or insider trading.

(2) The Budapest Municipal Court has exclusive jurisdiction in hearing the lawsuit referred to in Subsection (1).

_Section 208._

(1) Investment service providers and commodities brokers shall be required to post their standard service agreement in their customer areas, or shall supply them to the clients upon request. Where services are provided through electronic channels the standard service agreement shall be posted in electronic format to permit easy access for clients at any given time.

(2) Whenever an agent is involved in a transaction the client shall be informed of any potential consequence attributable to the agent's involvement, such as extra time and higher fees, and the agent shall notify the client accordingly prior to entering into any securities or commodities transaction. The agent shall be required to post in the customer area of his office, or in respect of electronic commerce, in electronic format to permit easy access for clients at any given time, the name of the investment service providers and commodities brokers for whom he provides agency services under contract, and shall make available the standard service agreements of these investment service provider and commodities brokers for the clients to review.

**Protection of Clients' Funds**

_Section 209._

(1) Investment service providers and commodities brokers must use their clients' funds and assets, with the exception defined in Section 148, as instructed by the clients. Investment service providers and commodities brokers may not use the funds and assets of their clients as their own in any way or form. Investment service providers and commodities brokers must have adequate facilities to ensure that their clients have access to their investment instruments, exchange-traded instruments and liquid assets at any given time.

(2) Investment enterprises and commodities brokers shall keep separate records of their clients' liquid assets and shall handle them separately from their own liquid assets. Investment enterprises must keep liquid assets recorded on the client accounts referred to in Section 147 in accounts opened at banks or at
clearing houses operating as specialized credit institutions, whereas the provisions on handling clients' liquid assets from that of their own applies in this case as well.

(3) Investment service providers and commodities brokers shall handle their clients' investment instruments and exchange-traded instruments from their own investment instruments and exchange-traded instruments.

(4) Client accounts and securities accounts shall contain separate columns for receivables and liabilities arising in connection with spot transactions, options and forward transactions.

(5) The clients' receivables referred to in Subsections (2) and (3) cannot be used for settling the debts of the investment service provider or the commodities brokers owed to creditors.

Chapter XXIV

INVESTOR PROTECTION FUND

Section 210.

(1) An Investor Protection Fund has been established to attend to the duties prescribed in this Act (hereinafter referred to as ‘Fund’) whose members comprise the economic organizations (not including private entrepreneurs) licensed to engage in the activities defined under Paragraphs a)-c) of Subsection (1) of Section 81 and Paragraphs a), b), g) and h) of Subsection (2) of Section 81 (hereinafter referred to as ‘insured activities’). These economic organizations shall be hereinafter referred to as ‘organization engaged in insured activities’.

(2) Organizations engaged in insured activities must enroll as members of the Fund prior to receiving a license for the activities specified in Subsection (1).

(3) The commodities brokers engaged in the activity defined in Paragraph g) of Subsection (2) of Section 81 may also join the Fund. Any commodities broker who did not join the Fund shall clearly indicate in its standard service agreement and in the client account contract that the client's funds placed in a client account are not covered by the Fund's protection.

(4) Foreign branch offices of organizations engaged in insured activities that have their registered offices in the territory of the Republic of Hungary shall be covered by the deposit insurance services provided by the Fund unless the laws of the country in which the branch office is established do not permit it. Foreign branch offices of organizations engaged in insured activities that have their registered offices in the territory of the Republic of Hungary may voluntarily join the deposit insurance scheme of the host country. Organizations engaged in insured activities shall notify the Fund when joining the deposit insurance scheme of the host country, whether compulsorily or voluntarily, including the conditions for joining, immediately upon gaining knowledge or when the application is lodged.

Section 211.

(1) The branch offices of organizations engaged in insured activities established in another Member State of the European Union shall not be required to join the Fund if they are registered under an investor-compensation scheme prescribed in Directive 97/9/EC of the European Parliament and of the Council.

(2) Subject to authorization by the Commission, the branch office of a third- country organization engaged in insured activities shall not be required to join the Fund if it has its own investor protection system, which is recognized by the Commission as being equivalent to the investor-compensation scheme prescribed in Directive 97/9/EC of the European Parliament and of the Council.

(3) The Commission shall decide whether an investor protection scheme referred to in Subsection (2) is equivalent, based on the following criteria:
   a) the scope of claims of investors it covers;
   b) the scope of clients to whom protection is offered;
   c) the amount of coverage provided for the claims of clients;
d) the length of time required for the settlement of claims as specified in the investor protection scheme;
e) the procedure for handling clients’ claims of settlement.
f) the opinion of the Investment Protection Fund.

(4) If a branch office is not required to join the Fund pursuant to Subsections (1) and (2), it may voluntarily join the Fund in order to obtain the supplementary cover referred to in Subsection (7) if it is able to meet the Fund’s requirements for membership.

(5) The Fund may enter into cooperation agreements with foreign investor protection schemes and with foreign supervisory authorities, and may exchange information from the records on investors covered by the investor protection schemes and on the insured accounts, and for the settlement of compensation claims. The various investment protection schemes shall inform each other of the amount of compensation they are liable to pay to any given investor.

(6) Any branch office of an organization engaged in insured activities established in another Member State of the European Union that is not covered by an investor-compensation scheme prescribed in Directive 97/9/EC of the European Parliament and of the Council must join the Fund in order to obtain the supplementary cover referred to in Subsection (7). If, in the opinion of the Commission, the branch office of a third-country organization engaged in insured activities does not have its own investor protection system, which is recognized by the Commission as being equivalent to the investor-compensation scheme prescribed in Directive 97/9/EC of the European Parliament and of the Council, it shall join the Fund in order to obtain full insurance coverage.

(7) If the maximum amount guaranteed by the investor protection scheme provided by the Fund, the scope of investments covered and the extent of coverage exceeds the maximum amount guaranteed, the scope of investments covered and the extent of coverage afforded by an investor protection scheme that covers the branch office of an organization engaged in insured activities, the Fund shall, at the request of the branch office, provide supplementary cover if the branch office meets the Fund’s requirements concerning membership. Supplementary compensation may be claimed if the competent authority of the country in which the head office of the branch is located notifies the Fund about the occurrence of events warranting compensation. Other aspects of supplementary compensation claims shall be governed by the provisions of Sections 216-220.

(8) Settlement for a claim shall be provided once; apart from supplementary compensation, no additional compensation may be demanded from the Fund on top of the compensation received by a branch office from the investor protection scheme of its country of domicile.

The Fund’s Legal Background

Section 212.

(1) The Fund is vested with legal personality.
(2) The Fund has its seat in Budapest.
(3) The Fund shall be exempt from corporate and local taxes and duties on its own funds, revenues and income.
(4) The Fund's liquid assets may not be extended, nor used for payments to any member of the Fund on any grounds. The Fund's liquid assets may be used only for the purposes laid down in this Act.
(5) The Fund's equity capital cannot be diversified.
(6) The Fund shall be represented in the court and before the authorities by the chairman of the board or by the managing director.

Duties of the Fund

Section 213.
(1) The Fund shall be responsible to compensate investors for losses in the amount defined in Subsection (2) of Section 217.

(2) Compensation shall be paid only if the underlying claim is based on a commitment secured by a contract concluded by and between, an investor and a member of the Fund following 1 July 1997 pertaining to an insured activity, and it concerns the settlement of assets (securities, moneys) that were entrusted to the Fund member and are recorded in the investor's name (insured claim). The insurance provided by the Fund shall cover only the agreements concluded during the period of membership.

(3) The scope of coverage specified in Subsection (2) also applies to claims lodged against a foreign branch office of a Fund member that is registered in Hungary, unless it is not allowed under the laws of the country in which the branch office is located.

(4) Foreign branch offices of organizations engaged in insured activities that have their registered offices in the territory of the Republic of Hungary may voluntarily join the deposit insurance scheme of the given country.

Section 214.

(1) For administration purposes the Fund may demand its members to supply information to the extent necessary for its records, and may inspect members' compliance with the obligations arising from their membership on location. Within this scope the Commission and the NBH shall furnish information to the Fund from their respective records. The Fund shall notify the Commission of any unlawful conduct it reveals in its official capacity.

(2) When authorized by the investors entitled to receive compensation, the Fund shall represent such investors in composition negotiations and during any liquidation proceeding.

(3) Members of the Fund shall be required to provide investors with readily intelligible information in Hungarian concerning the extent of protection offered by the Fund and the conditions of settlement.

(4) It is forbidden to convey any information relating to investor protection or to the Fund by way of advertisement for the purpose of soliciting more investments.

Section 215.

(1) Coverage provided by the Fund is not available to
a) the state,
 b) budgetary agencies,
c) business associations under one hundred per cent of state holding,
d) local authorities,
e) institutional investors,
f) compulsory or voluntary deposit insurance, institution and investor protection funds, Pension Guarantee Funds,
g) extra-budgetary funds,
h) investment companies, members of the stock exchange and commodities brokers,
i) financial institutions falling within the scope of the CIFE,
j) the NBH,
k) the executive employees of Fund members, employees of Fund members whether by contract of employment or under some other form of legal relationship, nor to their close relatives, furthermore
l) any economic organization or natural person having a direct or indirect holding of five per cent or more in the capital of a Fund member attaching voting rights, and any company they control, as well as the close relatives of natural persons
 or the foreign equivalents of such investments.
(2) For the purposes of Paragraphs k) and l) of Subsection (1), no compensation shall be paid if it applies to a Fund member in connection with which the settlement procedure is in progress in any extent
for the period between the date on which the contract underlying the claim was executed and the date on which the claim for compensation is lodged.

(3) Coverage provided by the Fund shall not apply to claims in connection with any transaction that was financed by funds of criminal origin, as declared by final court verdict.

(4) Coverage provided by the Fund shall not apply to claims in connection with any transaction that is denominated in a currency other than the euro or the legal tender of a Member State of the European Union or the OECD.

**Settlements Paid by the Fund**

*Section 216.*

(1) The Fund's liability of indemnification shall commence upon a court order for the liquidation of a Fund member.

(2) Any Fund member that is adjudicated in liquidation shall forthwith notify the Fund to that effect and shall compile all data and information required for processing and evaluating potential claims, and supply said data and information to the Fund in the prescribed from and manner without delay. The Fund shall be entitled to demand direct access to any data held by a Fund member affected that it deems necessary for the assessment of potential indemnification claims.

(3) The Fund is to publish an announcement by way of the means specified under Subsection (5) of Section 37 within fifteen days from the date when the court order of liquidation is communicated, notifying the investors concerned on the conditions to seek compensation. The announcement shall specify the date from which claims are accepted, the form in which claims are to be lodged, and the name of the paying agent. The first day specified for filing the claims must fall within a thirty-day period from the date when the court order of liquidation is communicated.

*Section 217.*

(1) Compensation to eligible investors shall be paid upon application. The Fund may specify formal requirements for the applications. Investors may submit an application within one year from the first day specified for filing the claims. If an investor was unable to lodge his claim for some excusable reason, he may submit the application within thirty days when such reason is terminated.

(2) The Fund shall compensate investors entitled to compensation for claims up to a maximum amount of six million forints per person and per Fund member. The amount of compensation paid by the Fund is 100 per cent up to one million forints, and for amounts over the one-million forint limit, one million forints and ninety per cent of the amount over one million forints.

(3) When determining the extent of indemnification, all of the insured claims of an investor and the claims not released by the member are to be consolidated.

(4) If an insured claim pertains to a security entitlement, the amount of compensation shall be determined based on the average price achieved during the one-hundred-and-eighty-day period immediately before the liquidation proceedings on the stock exchange or over-the-counter trading. If the securities in question had not been traded in the reference period, then the Fund's directors shall determine a price based on which to calculate the amount of compensation. The price shall be established to permit a situation as if the investor had sold the securities at the time of commencement of the liquidation proceedings.

(5) In respect of claims denominated in foreign currency, the amount of compensation to be paid in a foreign currency and the amount limit specific in Subsection (2) shall be calculated, regardless of the date of payment, at the official NBH rate of exchange in effect on the starting date of the liquidation proceedings. Regarding currencies that are not listed by the NBH, the mathematical average of the highest and lowest selling rates quoted by resident credit institutions shall be applied.
(7) Where a Fund member has any claim from a client in connection with investment services that is overdue or is scheduled to expire before payment of indemnification, it shall be deducted from the investor's claim when determining the amount of compensation.

(8) The Fund provides compensation only in money.

(9) The indemnification limit specified in Subsection (2) shall apply separately to all of the persons contained in the records of the Fund member who are eligible for compensation in connection with securities owned by several persons. The amount of compensation shall be divided equally among the investors, unless there is a contract clause to the contrary. The amount of compensation paid on jointly owned securities shall be added to the compensation payable for the claimant’s other claims.

Section 218.

Compensation for claims by clients of branch offices of third-country investment service providers and investment fund managers may be paid only up to the amount insured by the Fund.

Section 219.

(1) Upon the claimant supplying the contract underlying the insured claim along with all information required to verify his eligibility, and if the records maintained by the respective Fund member are also available, the Fund shall be required to process the investor's application for compensation within ninety days from the date when the application was submitted.

(2) If the contract supplied by the investor underlying his claim for compensation and the records maintained by the relevant Fund Member are in harmony, the Fund shall verify compensation to the extent substantiated by such documents and shall proceed to pay the compensation at the earliest possible time within a ninety-day period. In justified cases the settlement date may be extended - subject to prior approval by the Commission - once, by maximum ninety days. The date of payment of settlement shall be the first day when the investor actually had access to the funds provided in compensation.

(3) Under the conditions set forth in this Act, the Fund shall be liable to pay compensation if an investor's eligibility cannot be verified under Subsection (2), however, accompanied by a final court ruling in which the investor has been awarded the claim in question. In this case the investor may file his application within ninety days from the operative date of the court's decision, with the court ruling in question attached.

(4) If the Fund is compelled to borrow funds in order to meet the settlement date for the payment of compensation as specified above, the Government shall provide surety facilities for the Fund to obtain a loan for said purpose in accordance with Subsection (3) of Section 33 of Act XXXVIII of 1992 on the State Budget.

Reimbursement of Settlements

Section 220.

(1) Any Fund member, or the successor of a Fund member on whose account the Fund has paid any compensation shall be liable to reimburse the Fund in the amount of settlement paid out along with all incidental costs and expenses. This obligation shall also apply in respect of the members whose membership in the Fund has terminated in the meantime.

(2) Up to the extent of settlement paid by the Fund a client's claim shall devolve upon the Fund.

(3) The Fund shall seek satisfaction of its claim described in Subsections (1) and (2) in the liquidation proceedings. As to the sequence of satisfaction in the liquidation proceedings, the Fund shall assume the position of the investor whose claim it has appropriated.

Joining the Fund
Section 221.

(1) Prior to applying for a license to engage in an insured activity, the applicant economic organization shall submit to the Commission a statement filed to the Fund's executive board proclaiming its intent to join the Fund and shall submit payment of affiliation fees (intent of affiliation).

(2) The statement of affiliation shall be filed in the form prescribed and published by the Fund. The Fund shall not render membership conditional.

(3) Membership shall commence on the operative date of the license issued by the Commission to engage in an insured activity. In respect of voluntary affiliation (commodities brokers, branch offices), membership shall commence upon the day when the statement of affiliation is submitted and the affiliation fees are paid. The Fund shall publish the effective date of affiliation by way of the means specified under Subsection (5) of Section 37.

Membership Fees

Section 222.

(1) Before admission new Fund members must pay the prescribed affiliation fee. The affiliation fee shall be one-half per cent of the joining economic organization's subscribed capital, or minimum five hundred thousand forints and maximum three million forints.

(2) Members of the Fund shall be liable to pay annual membership dues to the Fund for each calendar year. The Fund's executive board shall determine the date on which the membership dues are payable.

(3) Annual membership dues shall be calculated on the basis of the average value of all funds deposited by investors with the Fund member during the previous year, in the form of liquid assets or securities, to which the Fund's protection applies. Membership dues with respect to liquid assets and securities deposited by an investor shall be paid by the Fund member that is liable to release the deposits on the basis of a contract concluded with the investor for performing insured activities.

(4) The Fund's executive board shall determine the amount of annual dues corresponding to the above-specified base and to the number of insured investors. When providing supplementary cover, the investments for which supplementary cover is provided shall be taken into consideration when determining the annual fee, along with the cover afforded by the investor protection scheme of the country in which the branch office's home office is located.

(5) The annual dues payable by a Fund member may not exceed three thousandths of the base amount; they may not, however, be less than five hundred thousand forints (minimum fee). The Fund’s executive board may set the amount of the minimum fee above five hundred thousand forints; however, the minimum fee must not exceed two million forints under any circumstances. A Fund member whose investors did not file any claims for compensation during the subject year and during the preceding calendar year cannot be charged more than the legal minimum. Apart from the cases in which annual dues are established in minimum fees, the annual dues of members are calculated by the same percentage rates based upon the formula defined above.

(6) Upon request, the Fund's executive board may reduce the annual dues payable by a member if the risks inherent in the insured activity in which the member in question is engaged are below average. The executive board shall specify the conditions for reducing annual dues in executive regulations.

(7) The Fund's executive board may order payment of extraordinary dues if the Fund's assets are insufficient to cover current and/or potential settlement claims. Extraordinary payment of dues may be ordered also if the Fund is unable to meet its loan repayment liabilities when due, whether it concerns principal or interest payments. Extraordinary payments are to be remitted in the manner and in the time prescribed by the Fund's executive board. Extraordinary payments shall be calculated on the same basis as annual dues, however, the extraordinary payments demanded in the course of a calendar year must not exceed the amount of annual dues last established.
(8) If the Commission has suspended all insured activities of a Fund member, and if the length of suspension covers the entire period remaining from the Commission's license, the Fund member in question shall not be charged any fees for the period of suspension. If the Fund member's license is not revoked, the fees applicable for the period of suspension shall be due and payable after the suspension is lifted.

(9) Affiliation fees, annual dues and extraordinary payments paid by Fund members to the Fund shall be recorded under other operating charges.

**Organizational Structure of the Fund**

*Section 223.*

(1) The Fund is governed by a seven-member executive board.

(2) The executive board shall be comprised of:
   a) one member delegated each by the exchange, the central depository and the NBH;
   b) two persons delegated by the professional interest representation organizations on behalf of Fund Members;
   c) a person appointed by the Commission;
   d) the managing director of the Fund.

(3) The term of office of board members shall be three years.

(4) If filling a vacant spot falls within the right of several organizations and they fail to reach an agreement concerning the appointment of the new member of the executive board, it shall be filled by the drawing of a name from a pool of candidates for which each eligible organization shall be entitled to delegate one person.

(5) When the term of a member of the executive board is terminated, the appropriate organization shall delegate or appoint a new member within thirty days.

(6) Members in the board shall terminate:
   a) upon expiration of the term referred to in Subsection (3);
   b) upon being recalled or discharged, or in the case of the managing director upon dismissal from the office of managing director;
   c) upon death; or
   d) upon resignation, with the exception of the managing director.

(7) Every two years, the executive board shall elect one of its members, other than the managing director, for the office of chairperson.

(8) The executive board shall convene at least quarterly. An executive session shall be called in the event of any imminent situation entailing settlements payable by the Fund, or if ordered by the Commission. Meetings of the executive board are called by the chairperson.

(9) A representative of the Commission shall attend the board meetings in an advisory capacity.

(10) A meeting of the executive board shall have a quorum when at least five members are in attendance. The executive board shall adopt its resolutions by simple majority voting.

**Duties of the Executive Board**

*Section 224.*

(1) The executive board shall have powers:
   a) to adopt the Fund's rules and regulations;
   b) to appoint and discharge the Fund's managing director, and to determine his duties and remuneration;
   c) to lay down the procedural regime of the Fund;
   d) to prescribe the contents of reports to be filed by the Fund's members so as to satisfy their obligations arising from membership, and the frequency in which they are to be filed;
e) to establish the Fund's annual budget, and shall approve the Fund's annual report;
f) to control and monitor the Fund's financial management and other activities;
g) to convey quarterly reports to Fund members and to the Commission concerning the current status and appropriation of the Fund's finances;
h) to draw up a yearly report on its operations by 31 May of the following year, and shall send it to its members and to the Commission;
i) to carry out other duties prescribed by law.

(2) The Fund's operations are directed by the managing director. The superior officer of the managing director is the chairperson of the executive board in all matters other than what is described in Paragraph b) of Subsection (1).

Section 225.

(1) The Fund's executive board shall adopt regulations in which to lay down the rules
   a) pertaining to fees charged to members, in particular to the method and formulas for determining the base amount and the amount of fees payable, including the procedures for payment methods and orders and payment dates;
   b) pertaining to administration;
   c) governing payments made by the Fund; and
   d) to define the agenda of the executive board.

(2) The Fund's bylaws shall not contain any provisions compelling its members, with the exception specified in Paragraph a) of Subsection (1). They may not contain any provisions to violate the principle of equal treatment among Fund members, and must not jeopardize the prudent and efficient management of the Fund.

(3) The Fund shall publish its bylaws, rules and regulations, and the board's resolutions that are classified public by way of the means specified under Paragraphs b) and c) of Subsection (5) of Section 37. It is not mandatory to publish the regulations referred to in Paragraph d) of Subsection (1).

Revenues of the Fund

Section 226.

The Fund's revenues shall comprise
   a) the affiliation fees,
   b) annual dues,
   c) extraordinary payments,
   d) yields from the Fund's assets,
   e) moneys borrowed by the Fund, and
   f) part of the fines imposed by the Commission in the extent specified in this Act, and
   g) other sources.

Accounts and Financial Management of the Fund

Section 227.

(1) The NBH shall operate the current account of the Fund.
(2) The Fund's free liquid assets must be kept in cash or government securities.
(3) The State Audit Office shall supervise the Fund's financial operations.
(4) The Fund may receive loans.
(5) The Fund shall pay settlements from its accumulated assets, and from the balance remaining from the Fund's annual revenues following deduction of the yearly operating expenses approved by the executive board.

Termination of Membership in the Fund

Section 228.

(1) Membership in the Fund is terminated when the Commission's license for all insured activity in which the member is engaged is terminated. Regarding voluntary affiliation (commodities brokers, branch offices) membership in the Fund may be cancelled at any time, in which case it shall terminate on the day when the member in question submits a statement for the termination of membership to the Fund, in the format prescribed by the Fund. When membership of any Fund member is terminated the Fund shall publish the effective date of termination by way of the means specified under Subsection (5) of Section 37.

(2) Termination of membership shall have no effect on the insurance coverage applicable to the transactions conducted under the period of membership.

(3) Termination of membership shall have no effect on the obligation of the payment of fees applicable to the economic organization in question. The fees paid under the period of membership shall not be refunded, whether in part or in full, on the grounds of termination.

PART EIGHT

INVESTMENT FUNDS

Chapter XXV

GENERAL PROVISIONS CONCERNING INVESTMENT FUND MANAGERS

Section 229.

(1) Investment fund managers may engage in the following activities by authorization of the Commission subject to the exception set out in Subsection (1) of Section 242/A:
   a) investment fund management;
   b) portfolio management specified in Paragraph c) of Subsection (1) of Section 81;
   c) asset management services rendered for voluntary mutual insurance funds;
   d) asset management services rendered to private pension funds;
   e) commission sale and redemption of the investment certificates of investment funds they manage;
   f) investment counseling specified in Paragraph f) of Subsection (2) of Section 81;
   g) securities lending and/or borrowing specified in Paragraph i) of Subsection (2) of Section 81.

(2) Investment fund managers must engage in the activity specified in Paragraph a) of Subsection (1).

(3) The services of investment fund managers defined under Paragraph b) of Subsection (1) shall be governed by the provisions of Sections 125-134 and Sections 136 and 137 on portfolio management, while those defined under Paragraphs c) and d) of Subsection (1) shall be governed by the provisions of Sections 125-127, Sections 129-132, Subsection (1) of Section 133, and Sections 134, 136 and 137 on portfolio management.

Section 230.

(1) The Commission shall grant a license for the activities defined in Subsection (1) of Section 229 separately, or shall issue a single license for several activities.
(2) The activity specified in Paragraph a) of Subsection (1) of Section 229 may only be performed by investment fund managers.

(3) Applicants for licensing the activities defined under Subsection (1) of Section 229 must have
   a) the necessary personnel, equipment and facilities as specified in Schedule No. 11;
   b) operating regulations prepared according to the layout illustrated in Schedule No. 12;
   c) procedural regulations as defined in Schedule No. 13.

(4) With the exception set out in Section 224 of the Companies Act, the operations of an investment fund manager shall be directed by at least two executives under contract of employment.

(5) The application of an investment fund manager to engage in the activity defined in Subsection (1) of Section 229 shall have the following attached in addition to the documents verifying compliance with what is contained in Subsection (3):
   a) organizational structure;
   b) the names of executive employees;
   c) a business plan.

(6) When an applicant applies for a license to perform the activity specified in Paragraph c) of Subsection (1) of Section 81, the application shall have attached the certificate of the Investor Protection Fund in proof of having submitted an application for admission and in proof of payment of the affiliation fee.

(7) The procedures, systems and solutions adopted by the investment fund manager shall be sufficient to permit administration of the records and accounts of securities, liquid assets, exchange-traded instruments and real estate contained in the various funds and portfolios separately from the investment fund manager’s own securities, liquid assets, exchange-traded instruments and real estate, and the investment fund manager shall have sufficient facilities for the retrieval of information on previous transactions (subject, date and time, name of the other party to the contract).

(8) The accounting, registration and informatics systems of investment fund managers must have sufficient facilities
   a) to provide information on their financial situation on a daily basis;
   b) to provide information at any given time concerning the balance of investment instruments, liquid assets, exchange-traded instruments and real estate held under the various funds and portfolios;
   c) to continuously monitor compliance with legal provisions and with their own internal regulations, and
   d) to keep records of data disclosed as prescribed by law.

(9) Investment fund managers shall report any changes to the Commission in their executive personnel.

Section 231.

In the course of licensing the operations of an investment fund manager, the Commission shall contact the competent supervisory authority of another Member State of the European Union if

a) the applicant investment fund manager is a subsidiary of an investment enterprise, credit institution, investment fund manager or insurance institution that is established in that other Member State of the European Union;

b) the applicant investment fund manager is a subsidiary of a parent company of an investment enterprise, credit institution, investment fund manager or insurance institution that is established in that other Member State of the European Union;

c) a natural or legal person holding a dominant interest in the applicant investment fund manager also has a qualifying holding in an investment enterprise, credit institution, investment fund manager or insurance institution that is established in that other Member State of the European Union.

Section 232.
(1) The Commission’s authorization referred to in Subsection (1) of Section 230 is not required for the management of an investment fund created upon the adaptation of the rules laid down in Council Directive 85/611/EEC by the host country, or for engaging in the activities specified in Paragraphs b)-d) and f) of Subsection (1) of Section 229 and in Paragraphs a) and b) of Subsection (1) of Section 242/A by an institution that is established in another Member State of the European Union, nor for setting up a branch office upon the adaptation of the rules laid down in Council Directive 85/611/EEC by the host country, if the institution or branch office in question is authorized in compliance with the said directive by the competent supervisory authority of the country where established.

(2) In respect of the establishment of branch offices by resident investment fund managers for the management of European investment funds in other Member States of the European Union or for engaging in the activities specified in Paragraphs b)-d) and f) of Subsection (1) of Section 229 and in Paragraphs a) and b) of Subsection (1) of Section 242/A, and for providing these services across the frontier, the provisions of Sections 102 and 103 shall apply noting that any reference made in legal regulation to investment enterprises and to investment service providers, or to investment services and auxiliary investment services shall be understood, respectively, as investment fund managers and their activities.

(3) Branch offices of third-country investment fund managers may not engage in the management of Europe-based investment funds and may not provide asset management services to private pension funds.

Section 233.

(1) The Commission shall decline to issue a license if the applicant fails to comply with the requirements laid down in this Act and in other legal regulations or if the applicant fails to provide sufficient proof of compliance with such requirements, or if any information supplied by the applicant is misleading or untrue.

(2) The Commission shall refuse to issue a license if there is a close link between the investment fund manager and another person situated in a third country where there are legal impediments that would prevent the Commission from the effective exercise of its supervisory functions over the investment fund manager in question. The information necessary for controlling the conditions specified in this Subsection must be supplied to the Commission.

(3) In respect of branch offices, the Commission shall decline to issue a license if
a) there is no valid and effective international cooperation agreement, based on mutual recognition of supervisory authorities which covers the supervision of branch offices, between the Commission and the supervisory authority competent for the place where the applicant is registered,
b) the country in which the applicant is established does not have legal regulations on money laundering that conform to the requirements prescribed under Hungarian law,
c) the applicant does not have adequate data management regulations that conform to the requirements prescribed under Hungarian law,
d) the applicant fails to supply a statement in which it offers full guarantees for the liabilities incurred by its branch office under its corporate name,
e) the applicant fails to submit the permit for the foundation of a branch office issued by the supervisory authority competent for the place where he is registered, and/or its declaration of approval or acknowledgment,
f) the legal system of the country where the applicant is established fails to guarantee the prudent and sound management of fund managers,
g) the applicant's main office is not in the country where he is established.

Section 234.

(1) The Commission shall revoke the license it has issued to authorize operations if
a) the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time;
b) the investment fund manager fails to pay to holders of investment certificates any of its undisputed debts within three days of the date on which they are due, or its holdings (assets) do not provide coverage for satisfying the known claims of creditors;
c) the license holder fails to commence within twelve months the activities to which the license pertains, or it has not engaged in such activities for more than six consecutive months;
d) the license holder retires from the activity to which the license pertains;
e) the license holder repeatedly or seriously violates the provisions laid down in this Act and in specific other legislation regarding the activity to which the license pertains;
f) the license of the founder of a branch office has been revoked by the supervisory authority responsible for the place where the founder is established;
g) the investment fund manager fails to comply with any recapitalization obligations within the deadline prescribed by the Commission;
h) the license was obtained by misleading the Commission or through any other illegal conduct.
i) it learns of a close link between the investment fund manager and a natural or legal person situated in a third country where there are legal impediments that would prevent the Commission from the effective exercise of its supervisory functions over the investment fund manager in question and the close link is not terminated within the time limit prescribed.

(2) In the cases referred to in Paragraphs d) and e) of Subsection (1) the Commission shall revoke the license it has issued to authorize operations when the license holder has settled all undisputed debts owed to clients, or if his contractual liabilities are carried forward by commitment from another investment fund manager. The Commission may stipulate certain conditions and requirements, which must be satisfied before the investment fund manager is permitted to terminate operations.

(3) The Commission may suspend the license it has issued to authorize operations for a specific time if the conditions and requirements based on which it was issued are no longer satisfied, however, they can be remedied within a reasonable period of time.

Section 235.

(1) An investment fund manager may operate exclusively as a share company with registered shares or as a branch office.

(2) In respect of investment fund managers operating as incorporated companies limited by shares the provisions of the Companies Act, and in respect of foreign companies operating as branch offices the provisions of the FCA, shall apply subject to the exceptions laid down in this Act.

(3) With the exception specified in Subsection (4) and in Section 242/C, the minimum amount of subscribed capital prescribed for investment fund managers is one hundred million forints.

(4) If the private pension fund assets managed by an investment fund manager is two billion forints or more, its equity capital must be at least two hundred and fifty million forints plus one per cent of the sum that is in excess of the managed two billion forints of private pension fund assets. If the equity capital of the investment fund manager is at least one billion forints, any increment in the managed private pension fund assets shall not be compensated by increasing its own funds.

(5) As regards the investment fund managers operating as branch offices, subscribed capital shall be understood to mean endowment capital.

(6) All investment fund managers must have a main office in Hungary from which to direct their operations.

(7) The endowment capital requirement shall not apply to the branch office of an investment fund manager established in another Member State of the European Union.
Section 236.

(1) The rules particular to investment fund managers shall be laid down in the fund operating regulations as illustrated in Schedule No. 16, which contains the standard terms and conditions of service between the investors and the fund manager. When purchasing investment certificates, investors shall supply a statement of acknowledgement of the terms and conditions contained in the fund operating regulations.

(2) Fund managers shall, at all times, proceed in the client's best interest in compliance with legal provisions and with their own internal regulations, and as stipulated in the fund operating regulations.

(3) Investment fund managers shall act under the principle of equal treatment with respect to investors.

(4) The fund operating regulations shall contain all information necessary for investors to make an informed judgement of the operation, investment strategy and management of the investment fund.

(5) Fund managers shall be permitted to unilaterally amend the terms contained in the prospectus of public funds and in their fund operating regulations, subject to the Commission's consent. The Commission's authorization is not required if the amendment
   a) entails the reduction of costs charged to clients,
   b) concerns the opening or closing of sales locations, if a new broker/dealer is already licensed by the Commission for such activity,
   c) is made to comply with new legal regulations, if it does not effect the fund's investment strategy or exposure factor,
   d) is for updating market information or balance sheet figures,
   e) is meant to reflect any changes among the officers of the fund manager or the custodian, or any changes in their corporate particulars,
   f) has already been authorization by the Commission where it is required.

Section 237.

(1) Investment fund managers shall be entitled to charge handling and administration fees in connection with their services related to fund management.

(2) A fund manager may not charge handling and administration fees to a public investment fund if the fund’s own capital on the average did not reach fifty per cent of the mandatory minimum of initial capital over a period of three months until the amount of own capital for the average of the last three months reaches fifty per cent of the mandatory minimum of initial capital. Handling and administration fees for the exempt period cannot be charged to the fund subsequently.

Section 238.

(1) An investment fund manager shall conduct all of its activities in the name of the fund with the exception contained in Subsection (2).

(2) Any transaction conducted by an investment fund manager for the transfer of investment instruments and/or real estate of clients may involve the instruments or real estate of several clients or of a single client.

Section 239.

(1) Any investment fund manager may create and operate several separate investment funds.

(2) The investment fund manager must handle and keep records of the assets of the fund and clients separately from its own assets.

(3) The assets which comprise part of a portfolio managed by an investment fund manager shall not be construed as the property of the fund manager.
(4) Investment fund managers shall keep records of the assets of each investment fund and each client separately.

(5) An investment fund manager may not acquire any holding in an issuer for the benefit of the funds it manages to an extent entailing any future purchase obligation.

(6) As regards real estate funds, the investment fund manager must purchase comprehensive insurance coverage for all of the (insurable) properties that are part of the fund’s portfolio.

Section 240.

(1) An investment fund manager may transfer an investment fund solely to another investment fund manager.

(2) A public investment fund may be transferred only if authorized by the Commission subject to a public announcement. As regards the transfer of private investment funds the provisions of the Civil Code on the assumption of debts shall apply.

(3) An investment fund manager may subcontract any part of investment operations only to a subcontractor that is licensed for the activity specified in Paragraph c) of Subsection (1) of Section 81 if it is a Hungarian-registered company, or if it is a foreign-registered company, a subcontractor holding a license granted for similar activities by the authorities of a Member State of the Organization for Economic Cooperation and Development.

(4) The investment fund manager shall be subject to full and unlimited liability for the investment fund management services provided by third parties. Any clause or stipulation to the contrary shall be null and void.

Section 240/A.

Investment fund managers may apply the provisions laid down in Section 160, noting that any reference made in legal regulation to investment enterprises or to investment service services shall be understood, respectively, as investment fund managers and their activities.

Section 241.

An investment fund manager may make any promise regarding earnings only in conjunction with a pledge for retaining capital. Any pledge must be

a) accompanied by a bank guarantee, or

b) secured by financial instruments and a sound investment strategy, of which the client must be informed in detail.

Conflict of Interest

Section 242.

(1) The executive officers of investment fund managers, those of their employees engaged in the decision-making and execution process in connection with investments, and persons employed by investment fund managers under any other form of employment relationship may not, whether by contract of employment or under some other form of legal relationship, be in the employment of

a) a custodian;

b) a contractor involved in the implementation of investment-related decisions, such as an investment service provider, real estate appraiser, real estate broker, or another investment fund manager, or

c) the client of the investment fund manager

who is engaged in a field directly associated with investment fund management.
(2) Any person who falls within the scope of incompatibility as defined above must forthwith notify the Commission, and shall terminate the grounds of incompatibility without delay.

Special Provisions pertaining to Managers of European investment funds

Section 242/A.

(1) Managers of European investment funds governed under Chapter XXIX of the CMA may engage, in addition to the activities defined in Subsection (1) of Section 229, in the following activities subject to authorization by the Commission:
   a) safe-keeping of securities, including accounts and other records [Paragraph a) of Subsection (2) of Section 81] if it pertains to investment certificates;
   b) custodial services for securities [Paragraph b) of Subsection (2) of Section 81] if they pertain to investment certificates.

(2) Managers of European investment funds must apply the provisions laid down in Sections 106-108, noting that any reference made in legal regulation to investment enterprises and to investment service providers shall be understood as investment fund managers.

(3) Managers of European investment funds shall be authorized to engage in the activities defined in Paragraphs a) and b) of Subsection (1) and in Paragraph f) of Subsection (1) of Section 229 only if they are licensed to perform the activities defined in Paragraphs b), c) or d) of Subsection (1) of Section 229.

(4) The activities of managers of European investment funds under Paragraphs a) and b) of Subsection (1) and Paragraphs b)-d) and f) of Section 229 shall also be subject to the provisions laid down in Sections 108-110, Sections 113-116, Section 120, Sections 173-175 and Sections 177 and 178, noting that any reference made in legal regulation to investment enterprises and investment service providers shall be understood as investment fund managers.

(5) When a manager of a European investment fund applies for a license to perform the activities specified in Paragraphs a) or b) of Subsection (1), the application shall have attached the certificate of the Investor Protection Fund in proof of having submitted an application for admission and in proof of having paid the affiliation fee.

(6) Managers of European investment funds shall adopt regulations to govern, within the framework prescribed by law, the notification requirement with respect to the transactions of its employees involving the fund manager’s securities and the records system to be maintained by the fund manager.

(7) The Commission shall not authorize the publication of a prospectus if the investment certificates of a European investment fund cannot be offered in Hungary on the basis of the investment fund’s management rules.

Section 242/B.

(1) The Commission shall supply written information to the European Commission concerning
   a) any license issued to a manager of a European investment fund that is a subsidiary, whether directly or indirectly, of a company established in a third country;
   b) the acquisition of any holding by a company registered in a third country in a manager of a European investment fund established in Hungary, in consequence of which the Hungarian investment fund manager becomes the subsidiary of the company registered in a third country.

(2) The notification supplied under Paragraph a) of Subsection (1) shall illustrate the corporate structure in detail.

Section 242/C.

(1) If the amount of assets managed by a manager of a European investment fund is 60 billion forints or more, its own funds shall be at least one hundred million forints plus 0.02 per cent of the amount in excess
of the said threshold of 60 billion forints of the net value of the assets of the funds it manages. If the own funds of the fund manager is 2.5 billion forints or more its equity capital need not be further increased.

(2) Where Subsection (1) and Subsection (4) of Section 235 apply jointly, the higher capital requirement shall apply.

(3) In the application of Subsection (1), the investment funds managed by the investment fund manager’s subcontractors shall also be taken into consideration; however, the investment funds managed by the fund manager under subcontract agreement need not be taken into consideration.

Section 242/D.

(1) In order to maintain continuity in its operations and protect its investors, the manager of a European investment fund shall maintain a solvency margin sufficient to cover any and all risks associated with its activities. The solvency margin must not be allowed to fall below

a) the amount specified in Subsections (3) and (4) of Section 235 and in Section 242/C;

b) 25 per cent of the operating expenses of the previous fiscal year at any time.

(2) The solvency margin of the manager of a European investment fund that is engaged in the activity specified in Paragraph b) of Subsection (1) of Section 229 must not be allowed to fall below the aggregate of the capital requirement, the extent of which is specified in specific other legislation, for the market risk of the positions and exposures listed in the trading book, for large exposures, and foreign exchange risks on the licensed activity as a whole as well as the risks inherent in lending operations and country risks.

(3) The solvency margin of the manager of a European investment fund must be at least the maximum amount specified under Paragraphs a) and b) of Subsection (1) and under Subsection (2) at any given time.

(4) In the event of any major change in the operations of a manager of a European investment fund, as compared with the previous fiscal year, the Commission may order the fund manager to review its solvency margin if defined according to Paragraph b) of Subsection (1).

Section 242/E.

A manager of a European investment fund may not purchase for any portfolio it manages investment certificates issued by other investment funds it manages, unless the client expressly agrees in advance.

Section 242/F.

(1) Managers of European investment funds shall notify the Commission when engaging a subcontractor under Subsection (3) of Section 240 within 30 days of the conclusion of the subcontract agreement.

(2) Engaging a subcontractor

a) may not constitute any impediment in the effective exercise of supervisory functions over the manager of a European investment fund;

b) must not jeopardize the interests of investors, and

c) shall not prevent the manager of a European investment fund to give instructions to the subcontractor in the interest of investors, nor shall it impede the manager’s ability to terminate the contract with immediate effect.

(3) An agreement between a manager of a European investment fund and its subcontractor shall contain sufficient facilities for the fund manager to regularly monitor the subcontractors’ activities.

(4) Subcontractors of managers of European investment funds must operate in observation of the fund manager’s fund management rules. A subcontractor managing European investment funds may not function as the custodian of the investment fund, nor shall its interest be permitted to contradict with the interest of holders of investment certificates.
Section 242/G.

(1) Managers of European investment funds shall be required to adopt risk management procedures with sufficient facilities to permit the continuous monitoring and analysis of position risks and their percentage in the whole risk structure of the investment fund. Managers of European investment funds shall be required to operate a regime with sufficient facilities to permit the continuous monitoring and analysis of risks inherent in over-the-counter derivative transactions. Managers of European investment funds shall inform the Commission on the limitations pertaining to transactions involving derivative instruments and on the methods employed to evaluate the risks in such transactions. Risks shall be evaluated in consideration of the other party’s risks, expected market trends and the time left until the position closes.

(2) At the request of any investor, additional information shall be provided on risk management procedures as well as on developments in the risks and yields of investment instruments.

Investment certificates

Section 243.

(1) All investment certificates must contain the following information:
   a) name of the investment fund;
   b) type of the investment fund (close-ended or open-ended), mode of placement (public or private), maturity;
   c) face value, securities registration code and serial number;
   d) the owner’s name;
   e) the rights of the owner or the holder attaching to investment certificates, as stipulated in the investment fund’s operating regulations;
   f) date of issue;
   g) corporate name and address of the investment fund manager;
   h) authorized signature of the investment fund manager.

(2) The information specified in Paragraphs c) and d) of Subsection (2) of Section 7 are not required for the written instruments issued for dematerialized investment certificates.

(3) An investor shall be entitled to a dividend on his investment certificates as commensurate for the aggregate of the face value of the investment certificates in his possession relative to the aggregate face value of all investment certificates in issue.

Issue and Marketing of Investment Certificates

Section 244.

(1) The issue and marketing of investment certificates, prospectuses and summary prospectuses shall be governed by the provisions contained in Part Two of this Act, with the exceptions set forth in this Chapter.

(2) Dematerialized investment certificates are contrived and dissolved under the investment fund manager's instructions, including the date, by the central depository. In the case of dematerialized investment certificates issued by open-ended investment funds, the central depository shall contrive and dissolve them on a daily basis when so instructed by the fund manager.

(3) Holders of investment certificates shall have the right of cancellation referred to in Section 41 only during the subscription period.

(4) All investment certificates issued under the name of an investment fund must be of the same face value and must have the same rights attached.

Section 245.
(1) Investment certificates may be offered to the public only if the fund manager has published a public-offer prospectus in the layout illustrated in Schedule No. 17, fund operating regulations containing the information specified in Schedule No. 16 and a summary prospectus containing the information specified in Schedule No. 18.

(2) Investment certificates may be placed privately only if the fund manager has made available the fund operating regulations containing the information specified in Schedule No. 16 to the potential investors.

(3) Any one of the documents referred to in Subsection (1) may be published in a consolidated format for several funds operated by the same fund manager.

(4) The fund’s operating regulations and the summary prospectus shall be supplied free of charge to any new investor when buying the fund’s investment certificates, and the fund’s prospectus and its most current annual and semi-annual report shall be furnished to the investor free of charge.

**Continuous Issue of Investment Certificates by Open-ended Investment Funds**

**Section 246.**

(1) The sale of investment certificates shall be mediated by a broker/dealer between the investors and the fund manager.

(2) A broker/dealer may employ agents for selling investment certificates. The broker/dealer shall be subject to full and unlimited liability for the services provided by its agents.

**Section 247.**

(1) Fund managers - through a broker/dealer - shall honor all requests for the redemption of investment certificates of an open-ended investment fund during regular business hours, and shall satisfy such requests - if made in respect of real estate funds - within ninety business days. If the fund consists of securities, the net asset value applied for the redemption of investment certificates must be the net asset value prevailing on the third business day from the date when the certificates are presented for redemption. The process to determine the net asset value for redemption and the date of payment shall be laid down in the fund's operating regulations.

(2) Open-ended public investment certificates must be offered every business day, except when closure is authorized by the Commission and when marketing has been suspended.

(3) The par value of open-ended investment certificates shall be calculated based on the net asset value that applies to one investment certificate. In respect of continuous issue, the investor may be charged a sales or redemption (repurchase) commission payable - in part or in full - to the fund, the broker/dealer or the fund manager. The investor shall be notified in advance concerning the rates of such commissions.

(4) The sale and the redemption of investment certificates, and the payment of dividends shall be handled by the broker/dealer. Sales are the sole liability of the broker/dealer.

**Section 248.**

Investors investing in a continuous issue of investment certificates shall be provided with the fund’s summary prospectus and the regular prospectus, the fund’s operating regulations, half-yearly and yearly reports, and the most current portfolio report free of charge; furthermore, in relation to verbal offers and electronic commerce, investors must be advised as to the place at which the above-specified documents can be reviewed.

**Section 248/A.**
(1) Where the prospectus of a publicly offered open-ended investment fund stipulates the maximum number of investment certificates to be offered (issue limit), the continuous issue of investment certificates shall be suspended when this limit is achieved based upon the number of investment certificates in circulation. Unless prescribed by law, the redemption of investment certificates may not be limited when the continuous issue of investment certificates is suspended.

(2) The prospectus or summary prospectus shall contain allocation information for the event of reaching the issue limit, the closing date of the allocation procedure and method of notification concerning the results of the allocation, and specific details upon which continuous issue may be restored.

(3) A notice shall be published in the fund’s official means of notification when the issue limit is reached, continuous issue is suspended or continuous issue is restored.

**Suspension of the Continuous Trading of Investment Certificates**

*Section 249.*

(1) The fund manager may suspend the continuous issue of investment certificates of an open-ended investment fund, of which the Commission must be notified without delay, only if precipitated by reasons beyond its control and only if it is in the best interests of the investors, under the following extraordinary circumstances:

a) the fund's net asset value cannot be determined, in particular if the trading of the given securities of the fund is suspended and these securities represent more than ten per cent of the fund's own capital, or

b) if the technical requirements for trading are not satisfied in at least half of the sales locations.

(2) Trading must be continued when the above-specified reasons are terminated or when so instructed by the Commission.

(3) Of the suspension referred to in Subsection (1), the fund manager must forthwith notify the competent authorities of all member states in which the investment certificates in question are offered.

*Section 250.*

Continuous trading of investment certificates may be suspended if permitted in the Commission's authorization for the termination or merger of the investment fund.

*Section 251.*

The Commission may order the suspension of the continuous issue of investment certificates if the fund manager has failed to comply with the obligation of disclosure of information and/or when deemed necessary to protect the investors' interests.

**Offering and Continuous Trading in the Domestic Territory of Collective Investment Instruments Issued Abroad**

*Section 252.*

(1) The public offering and trading in the domestic territory of collective investment instruments issued abroad shall be governed by the provisions of Chapter VI of this Act, with the exception that foreign investment funds and collective investment trusts must satisfy the requirements of disclosure and publication set forth in Subsection (4) of Section 245, Sections 248, 289, 290 and 293, including the structure and content requirements, and the regular publication of prospectuses prepared for continuous offerings. Information to Hungarian clients must be made available in the Hungarian language.
(2) If the issuer has a prospectus that has been approved for publication by the securities commission of the state in which it is established, the prospectus for the offering in the domestic territory is to be prepared consistent with the said prospectus, complete with information pertaining to the local market, such as in particular the method of information of resident investors, the type and the place of offering, tax liabilities pertaining to the securities, and information on the risks inherent in the investment.

(3) The Commission may suspend the continuous public offering of foreign-issued collective investment instruments if it fails the requirements laid down in Subsection (1). The Commission may ban the continuous offering if compliance with the legal requirements is not restored within thirty days from the order of suspension, or if suspension is warranted for the second time.

Creation of Investment Funds

Section 253.

(1) An investment fund shall be deemed established when registered by the Commission upon the fund manager’s request. The application for registration shall have attached a certificate issued by a custodian stating that the investors have deposited the capital specified in the prospectus and in the fund’s operating regulations or that the documents pertaining to the conveyance of title to real properties have been placed at the fund’s disposal in respect of real estate funds. When the fund’s initial capital has been deposited as due, the fund manager must proceed without delay to have the investment fund registered.

(2) If an investment fund fails to gather the initial capital within the timeframe stipulated in the fund's operating regulations the broker/dealer shall refund all moneys received from prospective investors within five days following the aforementioned time limit.

(3) Investment funds may be open-ended or close-ended, may invest in securities or real estate, and may be offered publicly or privately. When investing in securities, there may be special funds, Europe-based investment funds, investment funds investing in other funds, investment funds investing in derivative instruments and index-driven investment funds.

Section 254.

(1) The minimum initial capital of public investment funds shall be
   a) two hundred million forints when investing in securities;
   b) one billion forints when investing in real estate.

(2) The minimum initial capital of private investment funds shall be
   a) one hundred million forints when investing in securities;
   b) five hundred million forints when investing in real estate.

(3) The investment certificates of private real estate funds may be purchased in exchange for real property. The properties to be accepted shall be defined in detail in the fund's issue prospectus. The value of the properties pledged shall be determined jointly by the fund's auditor and real estate appraiser. The total value of properties must not exceed fifty per cent of the minimum initial capital requirements.

Termination of Investment Funds

Section 255.

An investment fund shall be deemed terminated when removed from the Commission's register. The Commission shall remove a fund from the register
   a) the next day upon receipt of a notice of dissolution at the end of the fund's fixed term, provided the fund's own capital is positive;
   b) the next day upon receipt of a notice of dissolution when the fund is terminated, provided the fund's own capital is positive;
c) when the proceeds from the sale of the fund's assets are paid in full upon its termination, if the fund's own capital is negative;

d) on the day of merger when merging with another investment fund;

e) the next day following the day when the last investment certificate is redeemed in connection with an open-ended investment fund.

Section 256.

(1) A fund must be terminated when its manager is terminated without a successor, or if the fund manager's license is revoked and it is taken over by another fund manager.

(2) When the capital of an open term investment fund is positive, the fund manager may terminate it upon the Commission's consent.

(3) A public open-ended investment fund must be terminated by its manager if the fund's own capital remains below twenty million forints on the average over a period of three months.

(4) A fund shall be terminated by resolution of the Commission if its own capital is negative.

(5) When an investment fund is terminated under Subsections (1)-(4), the fund manager or the custodian shall publish it within two business days following receipt of the Commission's resolution on termination, or following the period specified in Subsection (3).

(6) Subsequent to the date of publication referred to in Subsection (5) redemption and sale of open-ended investment certificates must be suspended.

(7) Following the publication referred to in Subsection (5), the fund's creditors must present their claims to the custodian within thirty days from the date of publication. No claims shall be accepted thereafter.

(8) If a fund's capital becomes negative on account of the claims lodged in accordance with Subsection (7) under the dissolution procedure, the custodian must forthwith notify the Commission accordingly.

Section 257.

(1) Unless otherwise prescribed by law, the duties attaching to the termination of a fund shall be carried out by the fund's manager, or if the fund manager is unable to attend to such duties and in the case of liquidation of the fund manager, by the custodian.

(2) In the cases referred to in Paragraphs a)-c) of Section 255, the investment instruments which are part of a portfolio shall be sold within one month, or within three months in respect of real properties.

(3) If the capital of an investment fund is positive, the sale of investment instruments may be performed by the fund manager himself. In other cases an investment service provider shall be commissioned to sell the investment instruments in question, where the underlying commissions shall be charged to the fund under dissolution expenses.

(4) If the capital of real estate fund under dissolution is positive, the sale of real properties may be performed by the fund manager himself. In other cases a real estate broker firm shall be commissioned to appraise and sell the properties in question. The fees and commissions charged by the real estate broker shall be paid by the fund under dissolution expenses.

(5) The deadline referred to in Subsection (2) may be extended once, by maximum three months, if authorized by the Commission.

(6) If the sale of real properties contained in the portfolio of a real estate fund is not achieved at the price stipulated by the professional appraiser within the time limit referred to in Subsections (2) and (5), these properties shall be sold by way of public auction, which is to be supervised by the custodian and the professional appraiser. The auction announcement shall be published through the fund's official communication channels at least thirty days prior to the scheduled date of the auction.

(7) After the assets of the investment fund are sold off and when all these assets are paid for, and after the deadline specified in Subsection (6) of Section 256 a notice of dissolution shall be prepared and submitted to the Commission within five days. After that the custodian shall proceed to pay out the funds available to the investor within ten days. The notice of dissolution, apart from the requirements laid down
in Schedule No. 19, must also contain the mandatory information prescribed for the annual account. A special announcement shall be published in notification of the commencement of payment.

(8) The proceeds from the sale of the investment fund's assets, if any capital remains after the fund's debts and liabilities are deducted, shall be distributed among the investors according to the aggregate of the face value of the investment certificates held by an investor as compared to the aggregate face value of all investment certificates in issue.

(9) The custodian shall deposit the funds earmarked for payment to the investors in a tied-up account until payment is remitted, or until the term of limitation.

Section 258.

(1) The termination of a fund whose capital is negative shall be conducted by a nonprofit company established by the Commission under the CIFE.

(2) After the assets of an investment fund are sold off and when all these assets are paid for, the aforementioned nonprofit company shall satisfy the creditors' claims in the sequence prescribed under the Bankruptcy Act.

Special Regulations and Exceptions Concerning the Termination of an Investment Fund Manager

Section 259.

(1) The termination of investment fund managers shall be governed by the provisions of the Bankruptcy Act, with the exceptions set forth in this Act. The liquidator of an investment fund manager shall be appointed by the court and it must be a nonprofit company established by the Commission according to the CIFE.

(2) The assets which comprise part of a portfolio managed by an investment fund manager shall not be construed as the property of the fund manager, and cannot be used for settling the debts of the investment fund manager.

Transformation of Investment Fund

Section 260.

(1) Any modification in the class, type and/or term of an investment fund shall be treated as transformation.

(2) An open-ended investment fund may not be transformed into a close-ended investment fund.

(3) A public investment fund may be transformed into a close-ended investment fund only if approved by all investors concerned.

(4) A close-ended fixed term investment fund may not be transformed into a close-ended open term investment fund.

(5) A Europe-based investment fund may not be transformed into non-Europe-based investment fund.

(6) A fund manager shall submit a reference summary to the Commission for approval, explaining the reasons, the date and the particulars of transformation. Upon receipt of the Commission's approval the fund manager shall announce the transformation in the investment fund's periodical of official announcements at least thirty days in advance.

(7) The Commission may prescribe specific conditions for the transformation of an investment fund when it deems it necessary for the protection of the investors.

(8) The transformation of a close-ended investment fund shall be subject to the amendment of its fund operating regulations that is to be achieved as specified in Subsection (3) of Section 265.

Merger of Investment Funds
Section 261.

(1) For the merger of a public investment fund the fund manager shall submit a merger notice to the Commission for approval, and shall publish it when approved.

(2) Investment funds shall be permitted to merge if they are of the same class and type and have similar investment strategies. A European investment fund may only merge with another European investment fund. The investment strategy of a European investment fund shall be considered similar to that of the successor fund if they both invest in the same instruments specified in Paragraphs a)-d) of Subsection (1) of Section 267 and if the type of assets in the portfolio of the acquired fund is consistent with the investment strategy of the acquiring fund.

(3) The merger agreement shall specify the surviving investment fund. An open-ended public investment fund may not merge into a close-ended investment fund.

(4) If the surviving fund is of fixed term, the maturity period remaining after the date of merger cannot exceed the term of the acquired fund, and it may not be less than one calendar year.

(5) Private investment funds shall be allowed to merge only upon the prior written consent of all investment certificate holders concerned.

Section 262.

(1) The merger notice shall demonstrate the reasons of merger, the investment strategies of the merging funds, trends of net asset value on the whole and in units of certificates, the valuation methods, the effective date of merger, conversion rates, the terms and conditions of the merger and instructions to holders of investment certificates in connection with the merger. The merger notice shall contain the surviving investment fund's operating regulations prescribed in this Act in its entirety.

(2) The manager of the surviving investment fund shall publish the merger upon receipt of the Commission's authorization in the investment fund's periodical of official announcements at least thirty days before the date of merger.

(3) On the effective date of merger the net asset value of the investment certificates of the acquired investment fund shall be fixed as translated into the face value of the surviving investment fund's investment certificates - in units of certificates. The fund manager and the broker/dealer shall record the surviving investment fund's investment certificates, in the net asset value of units of certificates, in the securities account maintained by the broker/dealer on behalf of the holders of the investment certificates of the acquired investment fund.

(4) The manager of the surviving investment fund shall draw up a report on its portfolios effective for the day of merger of the investment funds, and shall submit it to the Commission within eight business days following the merger. The report shall also be made available to the investors in the sales locations of the investment certificates of both the surviving and the acquired investment fund. The report shall contain an itemized list of the assets which are part of the portfolios and their value: the aggregate net asset values; the quantity of investment certificate; the net asset value per investment certificates; and the conversion rate. The report shall be signed by the custodian and the auditor of the surviving investment fund.

Chapter XXVI
SPECIAL REGULATIONS CONCERNING SPECIFIC INVESTMENT FUNDS

Close-ended Investment Funds

Section 263.

(1) The investment certificates of close-ended investment funds may not be redeemed before the term of the investment fund.
In the case of close-ended public investment funds the fund manager shall apply for the official listing of the investment certificates within one month after the investment fund is established or after it is made public.

Investment certificates of a close-ended investment fund may also be offered to the public within the framework of an issue program.

**Derogations Pertaining to Private Investment Funds**

*Section 264.*

When the investment certificates of an investment fund are subscribed in accordance with Section 13 it shall be construed as private offering.

*Section 265.*

1. When a private investment fund is established the fund manager shall draw up the fund's operating regulations. The mandatory layout of a private investment fund's operating regulations is illustrated in Schedule No. 16. The fund's operating regulations shall be approved by the Commission.

2. When approved by the Commission, the operating regulations shall be made available to the potential investors listed in the fund's operating regulations at least seven days prior to the commencement of subscription.

3. Any amendment in the fund's operating regulations shall be permitted only upon the prior written consent of all investment certificate holders concerned. A copy of the amended fund's operating regulations shall be sent to the Commission for information purposes thirty days before it goes into effect.

4. Investment certificates of private issue shall contain an indication of the restrictions concerning their transfer as laid down in the fund's operating regulations and in Subsection (5).

5. Investment certificates of private issue may only be traded among the persons specified in the fund's operating regulations, and may be sold only to the persons specified in the case of open-ended investment funds, until it is made public.

6. The manager of a private investment fund may derogate from the provisions laid down in Sections 266, 289 and 290 regarding its obligation of disclosure of regular and extraordinary information to the investors and in connection with net asset value in the fund's operating regulations.

7. By way of derogation from Subsection (2) of Section 358, the fund manager shall not be required to have the fund's annual report reviewed by an auditor. This, however, shall be expressly indicated in the fund's operating regulations.

**Chapter XXVII**

**EVALUATION AND INVESTMENT REGULATIONS CONCERNING INVESTMENT FUNDS**

**Calculation and Publication of Net Asset Values**

*Section 266.*

1. The net asset value of an investment fund shall be established by the custodian.

2. The net asset value shall be determined using the latest market price indices relating to the fund's assets.

3. The net asset value of an open-ended investment fund and the net asset value per unit of investment certificates shall be established and published by way of the means specified under Subsection (5) of Section 37 for each trading day, and shall be made available to the investors at all sales locations.
(4) The net asset value of a close-ended investment fund and the net asset value per unit of investment certificates shall be established and published by way of the means specified under Subsection (5) of Section 37 at least weekly, or at least monthly for close-ended real estate funds.

(5) The net asset value of an investment fund and the net asset value per unit of investment certificates shall be established and published daily by way of the means specified under Subsection (5) of Section 37 if the fund’s portfolio contains any derivative instruments.

(6) The net asset value of an investment fund and the net asset value per units of investment certificates shall be published within two business days after it is established.

(7) The manager of a real estate fund shall appoint an independent professional appraiser (individual or corporate) who has no investment in the fund to establish the value of the fund’s properties on a regular basis. The custodian’s consent [Subsection (1) of Section 215 of the Civil Code] and the Commission’s approval are required for the appointment of the said professional appraiser. If in the Commission’s view there is a reasonably substantial doubt concerning the impartiality and professionalism of the estimate supplied by the appraiser, the Commission shall have the right to instruct the fund manager to commission another appraiser. The professional appraiser appointed by the fund manager to establish the value of properties shall specify
   a) the upper limit for the purchase price to be paid by the fund,
   b) the lowest amount for which a property can be sold,
   c) the market value of the properties held by the fund, and
   d) the value of buildings under construction, and he shall monitor compliance with the construction plans.

(8) The professional real estate appraiser appointed by the fund manager to establish the value of the fund’s properties shall be liable if there any liens or other rights registered in the properties.

(9) The fund manager shall notify the appraiser of any work on a property to improve its value within two business days from the commencement of such work.

(10) The market value of the properties which are part of the portfolio of a fund shall be established at least every three months, and the value of those under construction shall be established at least every month.

(11) Concerning the evaluation of investment instruments which are subject to litigation, or on which any right is registered on behalf of a third party, the methods of evaluation and the information used for evaluation shall be documented.

(12) The fund manager shall convey each day to the custodian all documents which are necessary to establish the net asset value of the investment fund.

Chapter XXVIII

GENERAL INVESTMENT REGULATIONS

Section 267.

(1) The capital of an investment fund must be kept in the following instruments:
   a) investment instruments;
   b) bank deposits;
   c) foreign exchange;
   d) real estate.

(2) Real estate may be acquired by real estate funds only.

Section 268.

(1) An investment fund may not acquire, directly or indirectly, a share of over ten per cent in the capital of any issuer, nor securities attaching over ten per cent voting rights.
(2) Unless otherwise prescribed by this Act, securities and other money-market instruments from the same issuer may not exceed 20 per cent of the investment fund's own funds, with the exception of government securities of OECD Member States.

(3) An investment fund may not acquire more than 20 per cent of all debt securities and other money-market instruments issued by a single issuer, with the exception of government securities of OECD Member States.

(4) The combined total value of government securities of the same series of OECD Member States held by an investment fund may not exceed thirty-five per cent of the fund's own capital, with the exception laid down in Subsection (8) of Section 285.

Section 269.

(1) Compliance with the investment regulations stipulated in this Act must be achieved at the time of purchase, with a view to the market value of the various portfolio components on the transaction date as compared to the fund's own capital available on that date.

(2) It is the fund manager's responsibility to take the appropriate measures to restore compliance with the investment regulations within thirty days, if they cannot be enforced for reasons unforeseeable at the time when the securities in question are offered.

(3) If the ratio of any component of a portfolio of an open-ended investment fund significantly exceeds the prescribed limits (by more than twenty-five per cent) due to any changes in valuation prices or due to redemption in regular investment funds, the fund manager must reduce the ratio of the portfolio component to the prescribed limits within thirty days in the case of securities or within one year in the case of real estate.

Section 270.

(1) The fund manager may not invest the fund's own capital into investment certificates issued by the fund itself.

(2) If in investment fund invests its own funds in securities issued by a collective investment trust that is managed by the same fund manager, or another fund manager that has a close link to the said fund manager (including when the fund manager in question is engaged as a subcontractor), sales or redemption commission may be charged to the purchasing investment fund in connection with the investment or when liquidating the investment.

Section 270/A.

(1) A fund manager may not purchase for any investment fund it manages

a) securities of its own issue;

b) securities issued by any affiliated company of the fund manager, with the exception of securities whose price is listed publicly, including those to be admitted for official listing on an exchange.

(2) A fund manager may not place its own investment instruments into any fund it manages, nor may it purchase investment instruments for any fund it manages.

(3) A fund manager may not place any investment instruments owned by any of its affiliated companies into any public fund it manages, with the exception of securities whose price is listed publicly and government securities with a maturity of less than six months, including those admitted for official listing on an exchange.

(4) In connection with any deals involving the exempted investment instruments mentioned in Paragraph b) of Subsection (1) and in Subsection (3) as well as any deals by and between funds and/or portfolios managed by the same fund manager, the market value in effect at the time of contracting must be documented.
Borrowing, Encumbrance of Assets

Section 271.

(1) Subject to the exceptions set forth in Subsections (2)-(8), a fund manager may not pledge any assets contained in the investment fund's portfolio as security for a lien or in any other manner, nor may it issue bonds or debt securities in the name of the investment fund.

(2) The manager of an open-ended investment fund shall be entitled to borrow money in the name of the fund for the redemption of the fund's investment certificates, not to exceed ten per cent of the fund's own capital and for a maximum term of thirty days. The fund manager shall be entitled to pledge, in the name of the fund, the assets of the investment fund in collateral for the aforementioned loan.

(3) The fund manager may transfer the securities of the fund, not to exceed thirty per cent of the fund's own capital, under a securities lending agreement.

(4) The fund manager shall be entitled, in the name of the fund, to pledge the assets of the investment fund

- a) as security for transactions involving derivative instruments, and
- b) as security for real estate purchases made under deferred payment arrangements for a real estate fund if the security is pledged on condition that the seller grants consent for registration of the title under the fund’s name at the time it receives the security.

(5) A fund manager may be permitted to borrow securities only if the fund it manages invests in derivative instruments, or it is a close-ended fund. The fund manager shall be entitled to pledge, in the name of the fund, the assets of the investment fund in security for securities borrowed through a clearing house.

(6) The manager of a real estate fund may borrow money on behalf of the fund secured by mortgage or collateral security up to fifty per cent of the value of the properties the fund has purchased or the value on the basis of which the net asset value of specific real estate projects is calculated, provided this is consistent with the general provisions of the fund’s operating regulations. Apart from

- a) the property insurance purchased for the mortgaged property,
- b) assigning the proceeds of the property and transferring them to the creditor bank, or
- c) collateral security.

the fund shall not be permitted to supply any additional security for the loan. The fund manager shall not act as a creditor in a loan transaction secured by mortgage.

(7) The manager of a real estate fund shall have the authority to participate in tenders for the purchase of real estate in the name and on behalf of the fund and to provide earnest money, collateral security or a bank guarantee - where it is required in the tender document - to the benefit of the contracting entity if the property offered can be purchased for the fund in accordance with the general provisions of the fund’s operating regulations. The amount of earnest money or collateral security payable as explained above may not exceed twenty per cent of the property’s market value estimated by the real estate appraiser.

(8) The fund manager shall be entitled to authorize registration of a mortgage charged to the buyer relating to property held by the investment fund that has been sold under a valid sales contract if registration of the mortgage is requested in advance and in writing by a credit institution to secure its loan provided to the buyer to settle the remainder of the purchase price in full and if the credit institution transfers the loan covering the remainder of the purchase price directly to the fund’s bank account operated by a custodian. The fund manager shall be authorized, on the basis of a valid deed of sale, to approve the registration of a purchase or repurchase option or preemption right on the fund’s property.

(9) A fund manager shall not be permitted to provide any loan from the fund’s assets and may not undertake any guarantees for third persons, with the exception of the purchase of debt securities and other money-market instruments and with the exception referred to in Subsection (3).

(10) The securities pledged as collateral or transferred under lending arrangements, which are otherwise treated as liquid assets, shall not be liquid assets underlying the redemption of investment certificates.
(11) When calculating the ratio of specific securities as projected to the fund’s own capital, the securities transferred in the fund’s name under a lending arrangement shall be included; however, borrowed securities must not be included.

(12) The manager of a fund may not sell any securities or money-market instruments that are not owned by the fund.

**Derivative Instruments**

*Section 272.*

1. A fund manager may engage in the investment fund's name in any derivative transaction involving investment instruments, currencies or real estate solely for the objectives stipulated in the fund's operating regulations.

2. The fund manager may engage derivative transactions in the name of the investment fund it manages only if
   a) it reduces the risks inherent in specific investments (hedging),
   b) it improves the cost efficiency relating to setting up a portfolio in line with the fund's investment strategy (efficient portfolio management),
   c) it results in profits without any risk (arbitrage), or
   d) for the purpose of closing a pending derivative transaction.

3. The term of an over-the-counter transaction involving derivative instruments may not exceed the remaining term of the fund.

4. Investment restrictions shall apply to the net position of securities as specified in Section 273.

5. In terms of compliance with investment restrictions, futures transactions involving securities and index-driven instruments shall be taken into consideration based on market price of the underlying instrument, or in respect of options on the market value of the option multiplied by its delta.

6. Combined derivative transactions shall be administered as broken down to its constituents.

7. Futures transactions conducted on the exchange markets or on over-the-counter markets shall be treated according to the funds transferred, whether fictitious or real, in relation to the underlying instruments.

8. The positions denominated in a currency other than forints shall be converted into forints by the rate of exchange stipulated in the fund's operating regulations.

*Section 273.*

1. Net position of currencies securities representing identical rights, and of forward transactions for the same currency or investment instruments and for the same maturity, options and option warrants shall mean the difference between long (short) positions of the investment instrument as opposed to short (long) positions.

2. The investment fund manager may offset the fund's long (short) non-derivative positions in currencies or investment instruments by short (long) derivative positions in the same currencies or investment instruments, as well as the long and short derivative positions in the same assets against one another.

3. Positions in the same underlying securities may be offset if all of the criteria specified below are satisfied:
   1) the issuers of the securities, nominal interest rates and their maturity period are the same, and
   2) if the securities are denominated in the same currency.

4. Positions in convertible securities may not be offset by an opposite position in securities, to which the underlying securities can be converted.

5. The net position of an investment fund shall be determined for each type of currency. Net open currency position shall mean the total of the following constituents:
a) positions from non-derivative transactions,
b) net futures position (difference between the receivables and liabilities in connection with forward currency transactions, including the capitalized sums of forward currency transactions and currency swaps conducted on the exchange),
c) contingent and fully collaterized income and liabilities,
d) net delta risk of options for the same currencies (Net delta risk shall mean the difference between the absolute values of positive and negative delta risks. The delta risk of an option transaction is the market value of the underlying currency multiplied by the option's delta),
e) the market value of other options denominated in foreign currencies.

(6) An index-driven derivative instrument may be offset against securities listed under the same reference index, if comprising at least eighty per cent of the securities listed under the reference index in question.

(7) A short position that involves any commitment for delivery or an option for such commitment cannot be offset against a long position that does not involve delivery.

(8) Securities pledged in security for a loan or transferred under a lending agreement cannot be offset against derivative short positions.

Section 274.

(1) With the exception set forth in Section 278, a fund manager may not conduct any transaction on behalf of the investment fund that would result in a short net position if using the netting rules specified in Section 273, other than the short net positions committed under Subsection (6) of Section 273 to cover specific risks of securities.

(2) Investment funds shall, at all times, have liquid assets of sufficient offset value to cover the entire balance between all contract prices of derivative long positions and existing variable deposits, in addition to the liquid assets reserved for the redemption of investment certificates. The offset value shall be the same as the sum held in a bank deposit, whether payable on demand or tied up for no more than thirty days; or eighty-five per cent of the market value of other liquid assets.

(3) A fund manager may engage in a derivative transaction - specified in Paragraphs b) and c) of Subsection (2) of Section 272 - in the fund's name that is based on bonds or interest rates, if the fund's operating regulations contains any restrictions concerning the maximum average residual maturity of the fund's portfolio. The average residual maturity of the fund's portfolio may not exceed the limit stipulated in the fund's operating regulations, with the derivative instruments included.

(4) The combined market value of derivative instruments that were not offset by netting, calculated in accordance with the fund's operating regulations, may not exceed thirty per cent of the fund's own capital.

(5) The limit referred to in Subsection (4) shall not apply to:
   a) derivative transactions concluded to reduce foreign exchange risks;
   b) repo operations concluded with credit institutions on government securities.

Chapter XXIX

SPECIAL REGULATIONS AND EXEMPTIONS CONCERNING PUBLIC INVESTMENT FUNDS INVESTING IN SECURITIES

Section 275.

(1) The capital of public securities investment trusts must be kept in the following instruments being part of those specified in Subsection (1) of Section 267:
   a) in securities listed on the stock exchange or on another recognized market;
b) in securities whose issuer has undertaken a commitment to introduce the securities in question on either of the markets referred to in Paragraph a) within one year following the date of issue, and whose listing is not subject to any obstacle, legal or otherwise;

c) securities incorporating membership rights, which are not conform with the requirements specified in Paragraphs a) and b), for which at least two investment enterprises publicly announced a purchase price entailing an irrevocable commitment within thirty days prior to the date of purchase;

d) debt securities which are not conform with the requirements specified in Paragraphs a) and b), having an average residual maturity of maximum two years;

e) government securities;

f) collective investment instruments;

g) bank deposit;

h) foreign exchange;
i) derivative instruments.
j) money-market instruments.

(2) The own funds of an investment fund may only be invested in money-market instruments if the market price of such instruments is readily available every day in a reliable and controlled fashion.

Section 276.

(1) The combined total value, projected on the fund’s own funds, of the securities issued by a single issuer that are listed on the stock exchange or another recognized market and the securities referred to in Paragraph b) of Section 275 may not exceed the value specified on line ‘b’ of the table contained in Schedule No. 20 for the type of fund in question, with the exception of government securities issued by OECD Member States, the bonds referred to in Subsection (8) and the case specified in Subsection (2).

(2) With the exception of government securities issued by OECD Member States and the bonds referred to in Subsection (8), the combined total value of the adequately liquid securities that are held by a fund and listed on the stock exchange or on another recognized market and issued by a single issuer may not exceed the value, in comparison to the fund’s own funds, as specified for the type of fund in question on line ‘a’ of the table contained in Schedule No. 20. The securities listed on a stock exchange or traded on a recognized market shall be considered adequately liquid if traded in a value of more than one hundred million forints on a daily average during the last calendar quarter.

(3) The combined total value of the securities referred to in Subsection (2), if in excess of the limits specified in Subsection (1), held by a fund may not exceed the value, in comparison to the fund's own capital, specified in line "d" of the table contained in Schedule No. 20.

(4) With the exception of government securities issued by OECD Member States, the combined total value of the securities and other money-market instruments held by a fund that are not listed on the stock exchange or on another recognized market and are issued by a single issuer may not exceed the value, in comparison to the fund’s own funds, as specified for the type of fund in question on line ‘c’ of the table contained in Schedule No. 20.

(5) The combined total value of the securities and other money-market instruments referred to in Subsection (4) may not exceed the value, in comparison to the fund’s own funds, as specified for the type of fund in question on line ‘e’ of the table contained in Schedule No. 20.

(6) The combined total value of collective investment instruments may not exceed the value, in comparison to the fund's own capital, as specified for the type of fund in question in line "f" of the table contained in Schedule No. 20.

(7) The combined total value of government securities of the same series issued by OECD Member States may not exceed the value, in comparison to the fund's own capital, as specified for the type of fund in question in line "g" of the table contained in Schedule No. 20.

(8) The investment made by an investment fund in mortgage bonds issued by a single mortgage company with head offices in Hungary or in bonds issued by a single issuer that is established in another
Member State of the European Union upon the adoption of the rules laid down in Article 22 (4) of Council Directive 85/611/EEC by the host country must not exceed 25 per cent of its own funds.

(9) In the application of Subsections (1)-(6), publicly offered open-ended collective investment instruments shall be subject to the investment regulations pertaining to listed securities.

(10) The aggregate percentage of holdings in the securities referred to in Paragraph b) of Section 275 may not exceed thirty per cent of the fund’s own capital.

(11) The rules governing over-the-counter securities shall obtain for the securities referred to in Paragraph b) of Section 275 if they are not admitted to an official listing as specified under Paragraph a) of Section 275 within one year of the date on which the issuer made a commitment to do so.

(12) In the case of open-ended and publicly offered securities-based collective investment instruments, the securities of the fund and those in collective investment trusts shall be disregarded for the purposes of the limits specified in Subsections (1)-(5), (7) and (8).

Special Regulations Pertaining to Funds Investing in Other Investment Funds

Section 277.

(1) Any investment fund with an investment strategy to place at least eighty per cent of its own funds into collective investment instruments shall be treated as an investment fund investing in other funds, which shall be clearly indicated in prospectuses and summary prospectuses.

(2) Open-ended and publicly offered securities-based collective investment instruments which are part of the portfolio of a public investment fund investing in other investment funds shall be exempt from the provisions laid down in Subsections (1) and (2) of Section 268 and in Section 276.

(3) If an investment fund investing in other funds intends to place twenty-five per cent or more of its capital into a single investment fund or a collective investment trust, the investment strategy of the fund in question and the costs for the fund that is liable shall be illustrated in the fund's operating regulations.

(4) The prospectuses and summary prospectuses of an investment fund investing in other funds shall contain an indication of the ceiling on handling charges to be charged to the fund or the collective investment trust in which the fund has made an investment, and the maximum amount of handling charges charged to the fund or the collective investment trust in which the fund has made an investment shall be indicated in the fund’s annual report.

(5) The manager of a fund investing in other investment funds may conduct derivative transactions in the name of the fund only if they are in compliance with what is contained in Paragraphs a), c) and d) of Subsection (2) of Section 272.

Special Regulations Pertaining to Investment Funds Investing in Derivative Instruments

Section 278.

(1) The name of an investment fund investing in derivative instruments shall have the designation "derivative fund" incorporated.

(2) The manager of an investment fund investing in derivative instruments may conduct derivative transactions based on exchange-traded commodities in the name of the investment fund (for it and on its behalf). Such transactions, however, may not be concluded by physical delivery or by conveyance of any warehouse warrant.

(3) The provisions of Subsection (10) of Section 271, Subsections (2) and (3) of Section 272, Subsection (7) of Section 273 and Subsections (1)-(4) of Section 274 shall not apply to investment funds investing in derivative instruments.

(4) The total absolute value of the net positions defined under Subsection (1) of Section 273 for an investment fund investing in derivative instruments may not exceed twice the amount of the fund’s own
capital or four times the amount of the fund’s own capital if the fund invests, in addition to liquid assets, only in derivative instruments denominated in foreign currencies.

(5) An investment fund investing in derivative instruments may assume net sales positions by way of derivative instruments or by selling borrowed securities.

(6)

(7) The investment restrictions specified in this Act shall apply to the absolute values of net sales positions.

**Special Regulations Concerning Index-driven Investment Funds**

Section 279.

(1) The name of an index-driven investment fund shall have the designation "index-driven fund" incorporated.

(2) The provisions of Sections 268 and 276 shall not apply to index-driven investment funds with respect to the assets listed under the relevant reference index.

(3) With the exception of government securities, an index-driven investment fund may only contain securities listed under the relevant reference index and derivative instruments whose underlying index or securities are listed under the relevant reference index.

(4) The weighted average of the securities contained in the portfolio of an index-driven investment fund may deviate from the index-weighted average of the same securities by a maximum of five percentage points. For determining the weighted average, the positions in derivative instruments are to be taken into consideration. The summary prospectus and the fund’s operating regulations shall specify the permissible deviation from the index-weighted average of securities.

(5) An index-driven investment fund shall be managed so as to ensure that the fund’s portfolio remains consistent in terms of performance at all times with the reference index stipulated in the fund’s operating regulations.

(6) An index-driven investment fund may be established only if using an index that has been published on a regular basis for at least one year. If the underlying index is no longer published on a regular basis the index-driven investment fund shall be terminated or converted within ninety days. This deadline may be extended once, by maximum sixty days if authorized by the Commission.

**Special Regulations Concerning Real Estate Funds**

Section 280.

(1) Apart from real properties, the portfolio of a real estate fund may comprise only call or fixed bank deposits, government securities of OECD Member States issued for a maximum of one year and futures contracts for covering foreign exchange losses in the proceeds from real estate deals made under a fixed exchange rate.

(2) For the conveyance (sale or purchase) of real properties, real estate funds may conclude sales contracts, including the contracts named under the “Special Modes of Sale” in the Civil Code, that involve a sale in some form; real estate funds may also conclude contracts that are conditional.

(3) Sales contracts concerning real properties and mortgage loan contracts concerning the encumbrance of real properties must be countersigned by the custodian. The custodian’s capacity only extends to the legal aspects of transactions. The custodian is neither required nor entitled to evaluate the fund manager’s decision from the point of view of business considerations.

Section 281.
(1) The portfolio of a real estate brokerage trust must not contain any property that is valued at over twenty per cent of the trust's own capital.

(2) The value of buildings under construction for a real estate brokerage trust may not exceed twenty-five per cent of the trust’s own capital.

Section 282.

(1) Real estate development trusts may only function in the form of close-ended funds.

(2) The portfolio of a real estate development trust must not contain any property that is valued at over thirty per cent of the trust's own capital.

(3) The value of buildings under construction for a real estate development trust may not exceed sixty per cent of the trust's own capital.

Section 283.

(1) In the application of investment regulations, any property registered in the real estate register under one single topographical lot number (sub-number), that is marketable in itself shall qualify as one property.

(2) In respect of a contiguous parcel of land that is to be subdivided into independent tracts by decision of the competent building authority or as prescribed under the relevant Detailed Development Concept, each subdivided parcel of land shall be treated as an independent property for the purposes of investment regulations.

(3) In respect of a building containing several condominium units, for which the condominium association's charter document has been submitted to the land registration office, each unit shall be treated as an independent property for the purposes of investment regulations.

(4) A parcel of land or building under construction shall mean a project being developed by a real estate fund, if the underlying building permit is issued in the fund's name and solely at its own risk, and for which no occupancy permit has been issued yet. Upon completion of construction and occupancy, the property must satisfy the criteria specified in Subsection (1).

Special Regulations Concerning Europe-based Investment Funds

Section 284.

(1) A European investment fund means a public open-ended fund whose own funds can be invested only in the instruments specified in Paragraphs a), b) and e)-j) of Section 275 in observation of the provisions contained in Subsections (2)-(6).

(2) The own funds of a European investment fund may only be placed in money-market instruments that can be liquidated, according to market trends, at market price at any given time and whose market price is readily available every day in a reliable and controlled fashion, and it is

a) traded on a regulated market, or
b) issued in a regulated and controlled environment, or
c) issued or guaranteed by an establishment subject to prudential supervision, or

d) issued or guaranteed by a central, regional or local authority or central bank of a Member State, or

e) issued or guaranteed by the European Central Bank, the European Union or the European Investment Bank or by a public international body to which one or more Member States belong, or

f) issued by a company any of whose securities or money market instruments are traded on a regulated market.

(3) The own funds of a European investment fund may be placed only in the collective investment instruments of a European investment fund or a similar fund established in another Member State of the European Union, or in the collective investment instruments of a collective investment trust

a) whose securities are offered to the public and can be redeemed at any time and that places the assets received from investors into investment instruments;

b) whose activities are duly authorized and supervised;

c) whose regulations ensure the segregation of managed assets and the reduction of risks in compliance with the provisions of this Act;

d) that publishes annual and biannual reports;

e) whose management rules restrict the investment of its own funds into the collective investment instruments of a collective single investment trust at ten per cent.

(4) The own funds of a European investment fund may only be placed in short-term bank deposits that can be terminated on demand in credit institutions established in a Member State of the European Union or in credit institutions of third countries whose regulatory and supervisory system is able to ensure the prudent and safe operation of the credit institution.

(5) The manager of a European investment fund may only invest in derivative instruments for the purpose of efficient portfolio management or for reducing foreign exchange and interest-rate risks if it is in compliance with the investment rules laid down in the management rules.

(6) The fund manager may engage in derivative transactions on behalf of a European investment fund only if it satisfies the following requirements:

a) the underlying investment instrument is an instrument in which the own funds of the European investment fund can be invested (in accordance with this Act and the fund’s management rules), an index, interest rate, foreign exchange rate or foreign currency;

b) the daily value is readily available every day in a reliable and controlled fashion;

c) the position can be closed or terminated by the fund manager at market price at any given time;

d) with respect to over-the-counter transactions, the other party is an establishment subject to prudential supervision.

Section 285/A.

(1) With the exceptions set forth under Subsections (3)-(13) and in Section 285/B, a European investment fund may invest a maximum of ten per cent of its own funds in securities and other money-market instruments issued by a single issuer.

(2) In respect of securities and other money-market instruments of the same issuers held in a quantity constituting over five per cent of the own funds of the European investment fund, the combined total value of such securities and other money-market instruments may not exceed 40 per cent of the own funds of the European investment fund.

(8) With the exception set forth in Subsection (4), a European investment fund may invest a maximum of 35 per cent of its own funds into securities or other money-market instruments issued or guaranteed by a Member State of the European Union or by an international organization in which at least one Member State of the European Union is a member.

(4) A European investment fund may invest more than 35 per cent of its own funds in the securities and other money-market instruments referred to in Subsection (3) if its own capital is placed into securities or other money-market instruments of at least six different issues and there are no securities or other money-market instruments of a single issue in excess of 30 per cent of the fund’s own capital. The fund’s
management rules, the prospectus and all announcements must specify those Member States and international organizations in whose securities and other money-market instruments it has invested or plans to invest more than 35 per cent of its own capital.

(5) A European investment fund may invest a maximum of 25 per cent of its own funds into

a) mortgage bonds (that have been reported to the European Commission) issued by a single mortgage company that has its head offices in Hungary, or

b) bonds issued by a single issuer established in another Member State of the European Union upon the adoption of the rules laid down in Article 22 (4) of Council Directive 85/611/EEC in the legal system of the host country, provided that the type of the bond and the type of the issuer have been notified to the European Commission.

(6) If a European investment fund has bonds issued by a single issuer, as specified in Subsection (5), in excess of five per cent of its own funds, the combined total value of these bonds may not exceed 80 per cent of the capital of the European investment fund.

(7) The combined total value of collective investment instruments issued by an establishment other than a European investment fund or a similar fund established in another Member State of the European Union may not exceed 30 per cent of the own funds of the European investment fund.

(8) A maximum of 20 per cent of the own funds of a European investment fund may be deposited in a single credit institution.

(9) The exposure of a European investment fund to a single client in connection with any single over-the-counter derivative transaction may not exceed

a) ten per cent of the fund’s own funds if the client is a credit institution;

b) five per cent of the fund’s own funds in all other cases.

(10) None of the exposures of a European investment fund in connection with over-the-counter derivative transactions may exceed the fund’s own funds.

(11) The investments referred to in Subsections (3), (5), (8) and (9) shall be disregarded concerning the restrictions specified under Subsection (2).

(12) The combined total value of exposure of a European investment fund to a single client

a) under Subsections (1), (2), (8) and (9) may not exceed 20 per cent of the own funds of the European investment fund,

b) under Subsections (1)-(6), (8) and (9) may not exceed 35 per cent of the own funds of the European investment fund.

(13) For the purposes of investment restrictions any company that is required to file consolidated accounts under the Accounting Act shall be treated as a single client or a single issuer.

Section 285/B.

(1) With the exception set forth in Subsection (2), a European investment fund may invest a maximum of 20 per cent of its own funds into shares or debt securities issued by a single issuer if it is established as an index-driven investment fund under the conditions set out in Section 279.

(2) An index-driven European investment fund established for using an index in which the weight of the shares or debt securities issued by a single issuer exceeds 20 per cent, the threshold limit referred to in Subsection (1) may be increased to 35 per cent by decision of the fund manager in the case of any one security.

Section 286.

(1) The manager of European investment fund may not acquire shares attaching voting rights in the portfolio of the European investment fund it manages to such an extent as to constitute a major holding in the issuer.

(2) A Europe-based investment fund may acquire maximum ten per cent of the shares of an issuer without voting rights.
A Europe-based investment fund may acquire a maximum ten per cent of the debt securities issued by the same issuer.

A European investment fund may acquire a maximum of 10 per cent of the money-market instruments issued by a single issuer.

A European investment fund may acquire a maximum of 25 per cent of the collective investment instruments issued by a single collective investment trust.

The limit specified in Subsections (3) and (4) shall not apply to government securities and securities issued under state guarantees, and to securities and other money-market instruments issued or guaranteed by a public international body to which one or more Member States of the European Union belong.

Section 287.

The investment certificates of a Europe-based investment fund can be offered for trading in all European Union Member States. The fund manager shall ensure that appropriate locations are available in other Member State of the European Union for the sale and redemption of investment certificates, and for making payments to holders of such investment certificates.

The manager of a European investment fund shall ensure that the fund’s management rules, the prospectus and summary prospectus published by the manager of the European investment fund and the annual and biannual reports are made available to investors in any of the official languages of the countries concerned or in a language recognized by the competent authorities of the countries concerned.

When a European investment fund intends to offer its investment certificates in another Member State of the European Union, the investment fund manager shall notify the Commission and the competent authority of the Member State concerned. The competent authority of the other Member State concerned shall be supplied with:

a) the Commission’s certificate stating that the investment fund in question is a Europe-based investment fund;

b) the fund’s operating regulations;

c) the prospectus and the summary prospectus;

d) if available, the latest annual account and the subsequent half-yearly report; and

e) copies of the marketing agreements underlying the offering of the investment certificates in the Member State in question.

A Europe-based investment fund may commence offering its investment certificates in another Member State of the European Union after two months following submission of the notification referred to in Subsection (3), unless the competent supervisory authority of the Member State in question officially declared the investment certificates non-conforming.

If the investment certificates of a European investment fund are also offered in another Member State of the European Union or if a manager of a European investment fund opens a branch office in another Member State of the European Union, the Commission and the competent authorities of the countries concerned shall exchange information concerning the ownership and management of the investment fund manager in question that is likely to facilitate supervision of the fund manager. The Commission and the competent authorities shall cooperate to ensure that the authorities of the host Member State collect the particulars for the purposes of supervision in compliance with the regulations of the host Member State.

If an investment fund manager authorized in another Member State of the European Union establishes a branch office in the territory of Hungary, the Commission shall provide that the competent authorities of the home Member State may, after having first informed the Commission, conduct an on-the-spot verification of the information referred in Subsection (5). The Commission shall carry out the verification process at the request of the competent authority of the other Member State of the European Union.
Section 288.

(1) A Europe-based investment fund established in another Member State of the European Union, or a collective investment trust of the like may offer its collective investment instrument in Hungary upon notifying the Commission in advance. In this case the provisions of Section 252 shall not apply.

(2) Within the scope of Subsection (1), the issuer must provide and maintain the sufficient and appropriate conditions for trading, and shall ensure that the fund's operating regulations, its prospectus and its disclosures, regular and extraordinary, are made available to the investors in the Hungarian language.

(3) The Commission may impose a ban on trading within two months following receipt of the aforementioned notification, if it finds the conditions of trading unsatisfactory.

Chapter XXX

MANDATORY DISCLOSURE OF INFORMATION

Regular Disclosure

Section 289.

(1) Fund managers shall be required to prepare biannual and annual reports in accordance with the provisions of Schedule No. 21 within 45 days or 60 days for foreign investment fund managers and 120 days, respectively, of the end of the current six-month period (fiscal half-year) or the end of the current year (fiscal year) for each fund they manage, and they shall send such reports to the Commission and make them available to the investors at the fund manager and the broker/dealer. An announcement shall be published in the manner specified under Subsection (5) of Section 37 to indicate the date and place when and where the report is posted; the reports must be made available for perusal no later than seven days following the day on which the announcement is made in the manner specified under Subsection (4) of Section 37.

(2) Fund managers shall be required to report monthly on the portfolios of the investment funds they manage, indicate the net asset value of the portfolios as recorded for the last trading day of the month, send such information to the Commission and post the report at the sales locations and in its own headquarters as of the tenth trading day following the date on which it was recorded. The report shall separately indicate the various investment instruments contained in the portfolio, any other category stipulated in the fund’s investment policy, the fund’s own capital and the net asset value per unit of investment certificates.

(3) The provisions of Sections 52-54 shall not apply to investment certificates.

Extraordinary Disclosure

Section 290.

(1) Fund managers must, by way of the means specified under Subsection (5) of Section 37, post the following in relation to the funds they manage, and they must make them available at the broker/dealer offering the fund’s investment certificates:

a) announcements concerning transformation and merger, within thirty days prior to the effective date of the transformation or merger;

b) any changes in investment regulations, within thirty days prior to the effective date of the change to which it pertains;

c) when an open term is changed to fixed maturity and when a fixed period is reduced, within thirty days prior to the effective date of the change to which it pertains;
Disclosures to the Commission

Section 291.

(1) Apart from extraordinary disclosures, a fund manager shall be required to notify the Commission
a) when opening or closing a place of business and/or a branch office in the domestic territory or abroad, as applicable;
b) when any of their shareholders acquires an interest in excess of five percent of the fund's capital, as well as any subsequent acquisition or disposal of interest by such a shareholder;
c) concerning any variations in the criteria stipulated in the Commission's authorization or in the fund's operating regulations;
d) when a loan is obtained by the fund manager on behalf of the investment fund it manages;
e) when the redemption of investment certificates is temporarily suspended in relation to open-ended investment funds.

(2) The notifications referred to in Subsection (1) shall be conveyed in the case of Paragraph a) within two days following the decision, in the case of Paragraph b) within two days from the date of the relevant contract, in the case of Paragraph c) within two days from the effective date of the change in question, and in the cases of Paragraphs d) and e) immediately.

Section 292.

The requirements concerning the content and form of the notifications to be sent to the Commission, and the manner of disclosure are decreed in specific other legislation.

Miscellaneous Provisions on Disclosure

Section 293.

(1) The obligation of an investment fund concerning the disclosure of information in its capacity as an issuer, shall be satisfied in the fund's name by the fund manager.
(2) The draft of all documents, advertisements, promotional materials, flyers and posters that in any way or form pertains to public offering or trading of investment certificates in relation to an investment fund or a fund manager, and which are targeted to the investors shall be submitted to the Commission on or before the date it is made available to the investors.

(3) Investment fund managers shall proceed according to the principles laid down in Schedule No. 15 regarding the calculation and publication of any profit earned.

(4) It is forbidden to communicate any data that deviates from what is contained in the prospectus and in the fund's operating regulations, and to make any pledge concerning any profit or capital increment, with the exception described in Section 241.

Section 294.

Chapter XXXI

CUSTODIAN

Section 295.

(1) A fund manager shall commission custodial services for the fund it manages from a credit institution that is registered in Hungary and licensed to engage in the financial service defined in Paragraph i) of Subsection (1) of Section 3 of the CIFE as ‘custodial services for collective investment trusts’. The agreement for custodial services shall be subject to the Commission’s approval.

(2) The custodian shall provide its services solely in view of the benefit of the investors, independent of any outside influence.

(3) The securities account and the bank account operated for investments in connection with a particular fund and portfolio must be managed by the same custodian.

(4) The custodian shall perform the following as part of the services provided to an investment fund:
   a) determine the net asset value of the investment fund on the aggregate and for each certificate;
   b) shall publish the investment fund's aggregate and per unit net asset value, and/or shall communicate them to the investors;
   c) monitor the investment fund manager's compliance with investment regulations laid down in legal regulation and the fund's operating regulations;
   d) provide facilities to ensure that all proceeds relating to transactions involving the fund's assets and to the trading of investment certificates are conveyed to the fund within a reasonable time frame.

(5) All securities held by an investment fund must be deposited with the custodian or recorded on the accounts opened by the custodian, with the exception of collateralized securities. Any collateral that was not called must be delivered to the custodian or transferred to an account opened by the custodian.

(6) When the contract of a custodian is cancelled, the new custodian must be approved by the Commission.

(7) The custodian shall be required to notify the fund manager and the Commission in writing concerning any deviation in the course of his official capacity from legal regulations and/or from the fund's operating regulations, and also when the fund's own capital becomes negative.

(8) The custodian must reject any instruction of the investment fund manager that is in violation of the law and/or the fund's operating regulations, and shall demand the investment fund manager to restore the legitimacy of operations. If the investment fund manager fails to make all efforts necessary to restore compliance with legal regulation and with the fund's operating regulations, the custodian shall forthwith notify the Commission.

Section 296.
(1) The custodian shall be held liable for any damage caused by his failure to perform the obligations specified in this Act, and any clause or stipulation to the contrary shall be null and void.

(2) A custodian may involve a subcontractor for any part of custodian services subject to full and unlimited liability for any and all conduct of the subcontractor. The subcontractor must be another custodian who meets the requirements set forth in this Act, or an equivalent organization of foreign origin.

PART NINE

EXCHANGE MARKETS

Chapter XXXII

EXCHANGE MARKET OPERATIONS

Section 297.

(1) Exchange market operations shall mean for-profit activities involving the buying and selling of exchange-traded instruments in an organized fashion under standardized rules.

(2) Only an exchange shall be permitted to engage in exchange market operations.

(3) In respect of exchange markets the provisions of the Companies Act, and in respect of exchange markets operating as branch offices the provisions of the FCA shall apply, subject to the exceptions laid down in this Act.

Section 298.

(1) With the exception specified under Subsection (5) of Section 335, an exchange may only engage in exchange market operations, and in other activities which are incidental to such operations.

(2) Activities incidental to exchange market operations are
   a) clearing house services,
   b) educational services,
   c) information technology services,
   d) publication and distribution of periodicals,
   e) data and information supply.

Chapter XXXIII

LICENSURE OF EXCHANGE MARKETS

Section 299.

(1) An exchange may be established in possession of the Commission's authorization.

(2) An exchange may be established in the form of a limited liability company holding dematerialized shares only, or as a branch office of a foreign exchange.

(3) Exchanges for the trading of commodities, foreign currencies and forward interest-rate agreements must have at least one hundred and fifty million forints in registered paid-up capital (subscribed capital) or, when trading in other exchange-traded instruments, at least five hundred million forints.

Section 300.

(1) An application for licensing the foundation of an exchange shall have the following attached:
   a) the charter document of the exchange;
b) name of the owners participating in its foundation, and their respective shares of ownership;
c) a document in proof of payment of the subscribed capital by the founders;
d) drafts of the exchange's organizational and management structure, decision-making and control mechanisms, and its organizational and operational regulations, if they are not contained in the charter document in sufficient detail;
e) drafts of contracts to secure settlements;
f) if the applicant is non-resident, a statement concerning the applicant's agent for service of process, who must be an attorney or a law firm registered in Hungary;
g) a statement on having a main office in Hungary from which to direct operations.

(2) If any of the founding members intends to acquire a qualifying holding in the exchange under foundation, the following shall also be attached with the application for authorization, in addition to the requirements specified under Subsection (1):

a) the company's charter document;
b) a certificate of incorporation issued within three months to date, and for foreign companies the original certificate of incorporation and an official Hungarian translation, or proof that the company has been registered in the company (economic) register;
c) identification data of any person with a qualifying holding in the company, and proof of such a person having no prior criminal record;
d) proof of having no prior criminal record in respect of natural persons;
e) in respect of the persons participating in the foundation, documents issued within thirty days to date to verify of having no outstanding debts owed to the tax authority, the customs authority, or the social security system;
f) a declaration, substantiated with the proper documents, stating that money required for the subscribed capital is from legitimate sources;
g) the audited annual accounts of the business association for the previous three calendar years;
h) a statement declaring any and all contingent liabilities and commitments, by definition of the Accounting Act;
i) detailed explanation of a founder's ownership structure and other circumstances on account of which he is considered affiliated to certain entities, and the consolidated annual account of the principal company for the previous year, if the principal company is required to prepare consolidated accounts;
j) a statement of full probative force from all persons indicated in the application in which to grant consent, confirming the authenticity of the documents attached to the application for license as having been checked by the Commission by means of the appropriate agencies it has contacted.

(3) If any of the founding members is a foreign-registered financial institution, an insurance institution or an investment enterprise, and it intends to acquire a qualifying holding in the exchange under foundation, a certificate from the competent supervisory authority of the country where such a member is established, stating that the company operates in compliance with the regulations on prudent management, shall also be attached, in addition to the requirements specified under Subsections (1) and (2).

(4) Activities in connection with the establishment of an exchange may be performed under an authorization of foundation.

Section 301.

(1) In addition to the requirements specified under Paragraph a)-f) of Subsection (1) of Section 300, the following shall also be attached with the application for licensing the foundation of an exchange in the form of a branch office:

a) the charter document of the foreign exchange;
b) a certificate from the supervisory authority of the country where the foreign exchange is established, confirming that it operates as a recognized market in that country;
c) documents issued within thirty days to date to verify that the foreign exchange has no outstanding debts owed to the tax authority, the customs authority, or to the social security system, neither in the country where established nor in Hungary;

d) a certificate from the competent supervisory authority stating that the applicant's head office from which its operations are directed is in the country where it is established;

e) the audited annual accounts of the foreign exchange for the previous three fiscal years;

f) a detailed explanation of a founder exchange's ownership structure and other circumstances on account of which the founder exchange is considered affiliated to certain entities, and the consolidated annual account of the principal company for the previous year, if the principal company is required to prepare consolidated accounts;

g) a statement of full probative force from all persons indicated in the application in which to grant consent, confirming the authenticity of the documents attached to the application for license as having been checked by the Commission by means of the appropriate agencies it has contacted;

h) the scope of decision-making powers of the executive officer or officers of the exchange operating as a branch office, and the bodies of the applicant, the approval of which is required in order for certain decisions to be valid;

i) a certificate from the competent supervisory authority stating that, in relation to executive officers of nationality other than Hungarian, there are no disqualifying factors for holding such office.

2) The Commission shall authorize the foundation of the exchange by the applicant branch office if the requirements laid down in Subsection (1) of this Section and in Subsection (1) of Section 300 are satisfied, and if

a) there is a valid and effective international cooperation agreement, based on mutual recognition of supervisory authorities, which covers the supervision of branch offices between the Commission and the supervisory authority competent for the place where the applicant is registered;

b) the country in which the applicant is established has legal regulations on money laundering that conform to the requirements prescribed under Hungarian law;

c) the foreign applicant has adopted the internal regulations prescribed by this Act;

d) the applicant provides a statement in which it offers full guarantees for the liabilities incurred by its branch office under its corporate name;

e) the applicant has submitted the permit for the foundation of a branch office issued by the supervisory authority competent for the place where he is registered, and/or its declaration of approval or acknowledgment;

f) the legal system of the country where the applicant is established guarantees the prudent and sound management of the applicant.

3) With regard to branch offices, subscribed capital shall be understood to mean endowment capital.

Section 302.

1) The Commission's authorization is not required for the foundation of a branch office by an exchange that is established in another Member State of the European Union.

2) If the exchange to be established is a subsidiary of an exchange, credit institution or investment enterprise that is registered in another Member State of the European Union, the provisions of Section 94 shall apply mutatis mutandis.

3) For the foundation of a branch office by an exchange that is registered in Hungary in another Member State of the European Union, the provisions of Section 102 shall apply mutatis mutandis.

4) The Commission shall notify the European Commission concerning the recognized markets registered in Hungary.

Requirements for the Authorization of Exchange Market Operations
Section 303.

(1) An exchange market may commence operations that is in possession of the Commission's authorization. The Commission shall license specific exchange-traded instruments individually, or shall issue a single license for a group of exchange-traded instruments.

(2) Applicants for licensing exchange market operations must have
   a) agreements executed in principle with at least fifteen investment service providers or commodities brokers as prospective exchange dealers;
   b) the necessary personnel, equipment and security facilities;
   c) sufficient facilities for the settlement of exchange transactions;
   d) a business plan drawn up for a minimum period of three years in which to outline the background for sound and prudential management;
   e) a set of internal regulations, which must satisfy the requirements laid down in this Act and must be approved by the Commission;
   f) liability insurance coverage of at least one hundred million forints per claim.

(3) With respect to Paragraphs b) and c) of Subsection (2), the Commission shall inspect the level of conformity of the proposed trading and settlement systems with the prescribed requirements.

(4) An exchange may commence operations upon receipt of the Commission's authorization.

Section 304.

Applications for license to engage in exchange market operations shall contain the following enclosures:
   a) agreements in principle with prospective exchange dealers;
   b) detailed description of the proposed exchange market operations, in particular a list of the instruments planned to be traded, types of transactions, trading mechanisms, settlement systems and mechanisms, data processing and records, and data protection solutions;
   c) within the scope of Paragraphs b) and c) of Subsection (2) of Section 303, a detailed description of the equipment and technical devices available or planned to be purchased, and if the proposed trading system is computerized, the results of test runs to substantiate

   1) that the applicant's trading system has sufficient facilities to ensure equal treatment to all exchange dealers in connection with the same services provided as part of trading operations,
   2) that the applicant's trading system enhances a fair and reliable background for trading and ensures that transparency of transactions and prices is achieved, permitting the continuous monitoring of market trends and the implementation of measures by the exchange and the Commission, as specified in Sections 325-329,
   3) that the applicant has sufficient means to record and archive offers and transactions, and to make exchange information available to the public;
   4) that the applicant's data management system satisfies the requirements of reliable data protection;
   5) that the applicant's computer system has sufficient facilities for the settlement of exchange transactions (if settlement of exchange transactions are not performed within the exchange, an agreement with a clearing corporation is to be submitted);
   d) internal regulations;
   e) business plan for the first three years of operations;
   f) liability insurance policy;
   g) a statement on the proposed date for commencing operations;
   h) a list of the executive officers, along with all documents, instruments and certificates to evidence their compliance with the requirements set forth in Section 311 and Section 356.

Section 305.
Simultaneously with the authorization granted to an exchange to engage in the trading of the investment instruments under Section 82, the Commission shall assign it the designation “recognized market” in its records.

Section 306.

The Commission shall revoke the license it has issued to authorize exchange market operations if

a) it was obtained by misleading the Commission or through any other illegal conduct;

b) the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time;

c) the exchange fails to commence within six months the activities to which the license pertains, or has not engaged in such activities for more than six months;

d) the exchange retires from the activity to which the license pertains;

e) the exchange repeatedly or seriously violates the provisions laid down in this Act and in specific other legislation regarding the activity to which the license pertains;

f) under the prevailing circumstances the exchange's activities constitute substantial hazard or injury in respect of the interests of investors and exchange dealers, or it impedes the smooth operation of the money and capital markets;

g) the license of the founder, if a branch office, has been revoked by the supervisory authority responsible for the place where the founder is established.

Chapter XXXIV

REGULATIONS PERTAINING TO EXCHANGE OWNERS AND TO ACQUISITION OF HOLDING IN AN EXCHANGE

Section 307.

(1) The maximum number of votes to be held by a single person may be prescribed in the charter document of an exchange that operates as a private limited company.

(2) Any shareholder of an exchange referred to in Subsection (3) shall be permitted to maintain such control if having sufficient qualifications and credentials to direct the exchange in an unbiased and non-discriminating manner and in line with overall market conditions, and if capable to ensure the sound and prudential management of the exchange in terms of professional and financial aspects, and if it does not fall within the scope of the disqualifying factors listed under Section 357.

(3) Any acquisition of shares in an exchange whereby the direct or indirect holding of a single shareholder reaches thirty-three, fifty, sixty-six, seventy-five or one hundred per cent shall be subject to the Commission’s prior authorization. The permission of the Commission for the acquisition shall not constitute the license of the Economic Competition Office in any way or form.

(4) Any shareholder of an exchange - with a holding specified in Subsection (3) - shall be entitled to exercise the rights and the benefits attached to his share or voting right subject to the Commission's authorization, to the extent stipulated in the authorization.

(5) An application for the authorization defined in Subsection (3) shall contain the following:

a) the applicant's name, or corporate name if a legal person;

b) the extent or percentage of share to be acquired;

c) the articles of association, charter document, bylaws, and a certificate of incorporation issued within thirty days to date if the applicant is a legal person;

d) for any executive officer of the applicant, all data and information to determine the disqualifying factors specified in Subsection (1) of Section 357 and a statement regarding the criminal proceedings specified in Subsection (4) of Section 357;
e) a declaration, substantiated with the proper documents, stating that money required for the acquisition of shares is from legitimate sources;
f) a list of any other companies in which the applicant has a direct or indirect holding;
g) proof of having no prior criminal record in respect of natural persons.

(6) The Commission's authorization for the acquisition of shares shall remain valid for thirty days and it may be extended once, for another thirty days in justified cases.

(7) When the voting right of an owner of an exchange is terminated by law, the votes of such person shall not be included for the purposes of quorum.

Section 308.

(1) Any shareholder of an exchange - with a holding specified in Subsection (3) of Section 307 - shall be required to notify the Commission and the exchange within two days if
   a) he has disposed of his qualifying holding in its entirety, or
   b) he has disposed of his share to an extent whereby his share or voting right has dropped below the thirty-three, fifty, sixty-six, seventy-five or one hundred per cent threshold.

(2) The notification, if it pertains to Paragraph b) of Subsection (1), shall indicate the share or voting that remains in the holding of the person in question.

(3) The person referred to in Subsection (1) shall notify the Commission concerning the appointment of a new executive officer at the same time when reporting to the court of registration.

Section 309.

(1) Any acquisition and disposal of shares under Subsection (3) of Section 307 shall be notified to the exchange concerned within seven days.

(2) The exchange shall notify the Commission within five business days if it gains knowledge of any acquisition or disposal of its shares under Subsection (3) of Section 307 and shall simultaneously publish it by way of the means specified under Subsection (5) of Section 37.

Section 310.

(1) The Commission shall decline authorization for the acquisition of shares in an exchange, or for the exercise of the rights and the benefits attached to any share or voting right that is subject to the limits specified in Subsection (3) of Section 307, if the applicant's (including any owner or executive officer of the applicant)
   a) conduct or influence in the exchange endangers the independent, sound and prudent management of the exchange, or
   b) business activities or relations, or direct or indirect holding or holdings in other companies are of such a nature as to obstruct proper supervision.

(2) The conduct of the applicant, or of any owner or executive officer of the applicant, or their influence in the exchange shall be considered to endanger the independent, sound and prudent management of the exchange, if
   a) its financial and economic situation is deemed insufficient in view of the magnitude of the share to which the offer pertains, or
   b) the legitimacy of the funds used for the acquisition of shares is not proven, or that of the authenticity of the particulars of the person indicated as the owner of such funds, and
   c) the disqualifying factors listed under Subsection (1) of Section 357 apply, if it concerns a natural person.

(3) If the applicant is a legal person and there are no grounds upon which to decline authorization, yet if any owner with a qualifying holding or any executive officer of the applicant is indicted in criminal proceedings as referred to in Subsection (4) of Section 357, the Commission shall suspend the
authorization procedure until the conclusion of the criminal proceedings. The Commission shall continue the authorization procedure following the definitive conclusion of the criminal proceedings.

(4) In order to verify the criterion specified under Subsections (1) and (2), the Commission shall be entitled to demand any data and information by virtue of authorization granted by law from the persons referred to in Subsections (1) and (2).

(5) In the event of an owner failing either of the requirements for authorization, the Commission may suspend the voting right of the person in question until the unlawful situation is terminated or until new evidence is furnished concerning such requirements.

Chapter XXXV

CONFLICT OF INTEREST

Section 311.

(1) No person employed by an exchange nor the close relatives of such a person who live under the same roof may hold an executive or administrative position with an owner of the exchange or an exchange dealer.

(2) No person employed by an exchange nor the close relatives of such a person who live under the same roof may hold an executive or administrative position with an issuing house that are listed on that exchange, other than the securities issued by the stock exchange itself.

(3) No person employed by an exchange nor the close relatives of such a person may have any direct holding in an investment service provider or a commodities broker.

Chapter XXXVI

EXCHANGE OPERATIONS

Trading

Section 312.

(1) Entitlement for trading on the exchange shall be granted to a person (hereinafter referred to as 'exchange dealer')
   a) who is licensed by the Commission or another authority for trading in at least one of the instruments traded on the exchange in question;
   b) who meets the conditions laid down in the exchange's internal regulations;
   c) who has a contract with the exchange in which he agrees to observe the requirements laid down in the exchange's internal regulations;
   d) who has a valid contract with an organization for the settlement of exchange transactions or with a clearing member by whom to execute settlements.

(2) The exchange shall pass a decision concerning a contract offer within thirty days and shall execute the contract with the applicant accordingly.

(3) The exchange shall be required to enter into a contract with an applicant who satisfies the requirements laid down in Subsection (1).

(4) No limits shall be imposed concerning the number of exchange dealers.

Section 313.

(1) Entitlement for trading in securities on the exchange may be granted to a foreign company
a) who is licensed by the competent supervisory authority of the country where it is established for trading in securities and/or to engage in financial intermediation services, and
b) who is member or is a registered trader in a recognized market with which the exchange has an agreement for mutual trading, and
c) there is a valid and effective international cooperation agreement, based on mutual recognition of supervisory authorities which covers the supervision of licensed exchange dealers between the Commission and the supervisory authority competent for the place where the foreign company is registered.

(2) For the purposes of this Act, any transaction performed by a foreign company referred to in Subsection (1) on own account or on behalf of a foreign person as an intermediary shall not be treated as cross-border trading.

(3) A company that is registered in a Member State of the European Union and that is licensed to engage in securities trading and/or financial intermediation may be granted entitlement to engage in trading on an exchange market, Subsection (1) notwithstanding.

Section 314.

(1) The terms and conditions of trading rights shall be laid down in the internal regulations of the exchange to which it pertains.
(2) An exchange dealer may engage in the trading of specific instruments only if licensed by the competent authority to engage in the trading of such instruments.
(3) The trading entitlements of an exchange dealer may be restricted by a clearing corporation in the cases stipulated in its internal regulations.
(4) The license of a competent authority referred to in Paragraph a) of Subsection (1) of Section 312 and in Subsection (2) of this Section shall mean an operating license issued by the Commission, or by another authority, Hungarian or otherwise, where it is required by law for dealing in specific exchange-traded instruments.

Section 315.

(1) The exchange shall be entitled to request dealers to supply information on their activities on the exchange or that may have any influence on such activities, and to keep records of such information.
(2) The exchange shall be entitled to monitor the activities of exchange dealers on the exchange and to inspect any data and records pertaining to such activities.
(3) The exchange shall be required to notify the Commission in advance concerning the inspection referred to in Subsection (2) of the reason for and the estimated duration of, the inspection.
(4) The exchange shall inform the exchange dealer when commencing the inspection referred to in Subsection (2) of the reason for and the estimated duration of, the inspection.
(5) Based on the findings of an inspection referred to in Subsection (2) the exchange shall be entitled to take the measures stipulated in its internal regulations.
(6) The exchange shall notify the Commission of any unlawful conduct it detects in its official capacity.

Termination of Trading Entitlement

Section 316.

(1) Entitlement for trading on the exchange shall be terminated
a) upon the dissolution or death of the exchange dealer;
b) upon the expiry of the exchange trading agreement;
c) when the exchange trading agreement is cancelled; or
d) when the license of the exchange dealer to engage in trading on the exchange is revoked by the competent authority.

(2) The exchange shall be entitled to cancel its contract with an exchange dealer upon the exchange dealer's failure to abide by his obligations laid down in the exchange's internal regulations for which he has already been sanctioned. The exchange dealer whose contract has been cancelled shall have the right to contest it in court within thirty days. Failure to observe this deadline shall constitute forfeiture of right. Having an action filed shall have no suspensory effect on the cancellation.

**Internal Regulations of the Exchange**

*Section 317.*

(1) Within the framework afforded by law, an exchange shall define the general rules regarding its operations in internal regulations, as well as the rights and obligations of exchange dealers and issuers.

(2) Approval of an amendment of the exchange's internal regulations falls within the exclusive jurisdiction of its executive board. Concerning the approval or amendment of the internal regulations specified in Paragraphs c) and e) of Subsection (4) the executive board must consult with the exchange dealers in advance, or if the regulation referred to in Paragraph d) pertains to securities which are included in its official listing, it must consult with the issuers of such securities or their trade organization.

(3) The exchange's internal regulations are to be devised to provide sufficient background for the transparency and for the supervision of exchange market operations and trading in general, including the records of such activities, as consistent with prevailing market conditions, thus to facilitate equal opportunity and equal treatment to traders and to enhance the objective market protection of investors.

(4) The exchange's internal regulations shall stipulate:

a) the requirements for receiving entitlement for trading, the grounds for suspension and termination, and the related rules of procedure;

b) the rules for trading;

c) the rules for incompatibility in respect of the executive officers and employees of the exchange;

d) the rules of admission to and removal from the official listing, and the related rules of procedure;

e) the rules for the suspension of trading, and the related rules of procedure;

f) the manner of publication of prices and other information relating to the exchange;

g) the information to be disclosed by exchange dealers and issuers of listed securities, the method of disclosure and the related control procedures;

h) the rules for the settlement of transactions conducted on the exchange (if they are performed by the exchange itself);

i) the fees charged for services provided by the exchange.

(5) The exchange’s internal regulations may not contain any provisions in contradiction of the principle of equal treatment among the exchange dealers and issuers.

(6) The exchange shall publish its internal regulations and any amendments thereto following approval by the Commission by way of the means specified under Subsection (5) of Section 37. The exchange shall not be compelled to publish the regulation referred to in Paragraph i) of Subsection (4).

(7) The exchange's internal regulations shall be subject to contestation by the exchange dealers, issuers and investors in court, if it contains any provisions that violates the provisions of this Act or any other legal regulation.

*Section 318.*

(1) The exchange’s internal regulations, apart from the one referred to in Paragraph j) of Subsection (4) of Section 317, shall be subject to the Commission’s approval.
(2) The Commission shall not approve any regulation that violates the provisions of this Act or any other legal regulation, or that fails to conform with other regulations of the exchange or with the regulations of the clearing corporation.

(3) The exchange's internal regulations, and any amendments therein, may be applied following their publication as specified in Subsection (6) of Section 317.

Chapter XXXVII

EXCHANGE TRANSACTIONS

Section 319.

(1) An exchange transaction shall mean a contract concluded by a dealer on an exchange market for the instruments and in the manner stipulated in the internal regulations of that market.

(2) An exchange transaction may be a spot, futures or options transaction, or any combination of the above.

(3) An exchange transaction shall be deemed valid if all related data and information are recorded according to the instructions contained in the exchange's internal regulations, and if confirmed by the clearing house if it is a futures or options transaction.

Section 320.

If an exchange transaction entails a commitment for the physical delivery of its object without having defined the term and conditions and the date of settlement, such a commitment shall be performed in the manner and in the time specified in the exchange's internal regulations (spot transaction).

Section 321.

(1) By agreement of the parties, an exchange transaction may stipulate delivery of its object at a future date specified in the exchange's internal regulations (forward transaction). In this case the exchange transaction shall be deemed operative under the settlement conditions fixed in the exchange's internal regulations when it is registered and confirmed by the clearing house. The commitment agreed upon in the forward transaction shall be performed by the clearing house on behalf of both parties, in the manner stipulated by the internal regulations of the clearing house.

(2) The settlement of a forward transaction may be in the form of delivery of the object to which it pertains, by delivery of a warehouse warrant or by cash payment. Physical delivery of the object of the transaction may be subject to full or partial restriction under settlement regulations.

Section 322.

(1) When the right to purchase specific exchange-traded instruments is granted to a person, such a person shall have the option to exercise this right and purchase the instrument in question (call option). When the right to sell specific exchange-traded instruments is granted to a person, such a person shall have the option to exercise this right and sell the instrument in question (put option).

(2) An option agreement shall specify the exchange-traded instrument to which it pertains, the exercise price, the option premium and the option period (exercisedate).

(3) An option may not extend beyond five years from the transaction date. The option may be stipulated to be implemented on a specific date, in which case the date must be within five years from the transaction date. Any option that is stipulated for a duration of over five years, if the date is beyond five years, or if the term of the option is not fixed shall be null and void. The exchange's internal regulations may
prescribe the duration and the date of an option as consistent with the specific transaction to which it pertains.

(4) An option transaction shall be deemed operative when it is registered and confirmed by the clearing house. The commitment agreed upon in the option transaction shall be performed by the clearing house on behalf of both parties, in the manner stipulated by the internal regulations of the clearing house.

(5) An obligor of an option transaction cannot be relieved from his contractual commitments by the court.

Section 323.

An exchange transaction may be concluded regardless of whether or not the object of the transaction is not owned by the seller. An option or preemption right stipulated in an exchange transaction is transferable, and it may be inherited.

Chapter XXXVIII

SETTLEMENT OF EXCHANGE TRANSACTIONS

Section 324.

(1) Settlement of exchange transactions may be achieved by the exchange itself or by independent clearing houses and other similar bodies providing clearing or settlement services.

(2) If settlement is not achieved in the exchange, the exchange must have a clearing corporation providing such services under contract.

Suspension of Trading on the Exchange

Section 325.

(1) An officer designated in the exchange's internal regulations may suspend the trading of specific exchange-traded instruments for a maximum period of ten trading days, if further trading is not ensured under smooth, transparent and fair conditions, or if the settlement of transactions in such instruments is not guaranteed. When trading in specific securities is suspended the issuer of such securities shall be notified.

(2) Any suspension ordered by an officer designated in the exchange's internal regulations for over three trading days shall be subject to the Commission's prior consent.

Section 326.

(1) An officer designated in the exchange's internal regulations may suspend the trading of specific types of instruments or all trading activities for maximum one trading day, of which the Commission must be advised immediately, if continued trading endangers the rightful interests of investors, the equilibrium of the market or the operation of the exchange.

(2) The Commission may suspend the trading of specific classes of instruments or all trading activities for a specific period if the prevailing overall financial, economic or political situation does not support order and transparency in trading and continuous and fair trading on the exchange cannot, as a consequence, be maintained.

Section 327.
(1) The management of the exchange or the Commission may suspend the trading of specific instruments for maximum thirty trading days if continued trading is not ensured under transparent and fair conditions, if it endangers the equal treatment and rightful interests of investors, the equilibrium of the market, or if the settlement of transactions in such instruments is not guaranteed. Suspension by the management of the exchange is subject to the Commission's prior approval if it exceeds three days.

(2) The management of the exchange or the Commission may order the extension of suspension described in Subsection (1), on maximum two additional occasions of thirty days each, if the reasons for suspension have not been eliminated.

Section 328.

The approval of the Minister of Finance is required for the suspension of all trading on the exchange for a period of over ten days.

Section 329.

(1) The exchange and the Commission shall forthwith notify each other when ordering the suspension of trading and when trading is restored, and shall publish it by way of the means specified in Paragraph c) of Subsection (5) of Section 37.

(2) When the reason for suspension is terminated the party ordering the suspension shall take immediate measures to restore trading. When suspension was ordered by the exchange, and it unjustifiably fails to restore trading, the Commission shall restore trading by resolution.

Chapter XXXIX

EXCHANGE FINANCES AND INVESTMENT RESTRICTIONS

Section 330.

(1) The exchange may not place its free liquid assets into any instrument that is listed and traded on the exchange, exclusive of government securities and shares issued by the exchange or by a clearing house performing settlement services for the exchange.

(2) The exchange may not place its free liquid assets into securities issued by any of its shareholders with a holding specified in Subsection (2) of Section 307, exclusive of government securities.

(3) An exchange may purchase real estate solely to the extent required for its operations.

(4) For the purposes of Subsection (3), the real estate or part of a real estate which is indispensable for the exchange's business activities, uninterrupted and smooth operations or is required for providing the employees with services to improve working conditions shall be construed as required for the exchange's operations.

(5) An exchange may establish a business association or acquire holding in a business association solely if it serves the purposes of exchange market operations or activities auxiliary to exchange market operations.

(6) An exchange may not acquire any holding in a company and may not be a member in a company whereby to invoke unlimited liability for the debts of the company in question, regardless of its percentage of holding.

Chapter XL

PUBLICITY OF EXCHANGE MARKET OPERATIONS
Section 331.

(1) The exchange shall facilitate sufficient publicity of exchange information in order to keep exchange dealers and investors properly informed. Publicity may be accomplished by the exchange itself or by another organization under contract.

(2) The exchange shall be entitled to charge a fee for any supply of exchange information if disclosed within the time specified in its internal regulations, or within maximum twenty minutes. Past the timeframe specified in the internal regulations the exchange information shall be made available to the public free of charge.

Section 332.

(1) The exchange shall notify the Commission and publish it at the same time by way of the means specified under Subsection (5) of Section 37
   a) when commencing operations;
   b) when ordering a day off from trading;
   c) the names (corporate names) of its shareholders, and their percentages of holding;
   d) any changes in the personnel specified under Sections 307, 308, 311 and 356;
   e) when calling its general meeting, including an indication of the agenda, and the resolutions adopted by the general meeting;
   f) the audited annual account when approved, and the auditor's report;
   g) any changes in its particulars recorded in the company register;
   h) if implicated in a judicial supervisory action;
   i) in the event of outsourcing any administrative activity to an independent business association.

(2) The exchange shall satisfy the reporting requirement within five days from the day on which the decision is made or the event occurs.

Chapter XLI

TERMINATION OF EXCHANGE MARKET OPERATIONS

Section 333.

(1) A nonprofit company specified in the CIFE may be appointed by the court as the liquidator of an exchange market.

(2) The appointed liquidator must ensure provision for the continuation of exchange market operations for a period of at least six months from the date of appointment.

(3) Open positions from transactions concluded on an exchange market that is terminating operations may be transferred to another exchange market operating in compliance with this Act under the conditions laid down in the regulations on exchange markets and organizations providing clearing or settlement services.

(4) Exchange dealers shall notify their clients in writing of the closure of the exchange at least forty-five days before the last trading day on the exchange market terminating its operations. The costs and expenses arising in connection with the transfer of open positions from transactions concluded on the closing exchange market cannot be charged to the clients.

PART TEN

CLEARING HOUSE AND CENTRAL DEPOSITORY OPERATIONS

Chapter XLII
CLEARING HOUSES

Section 334.

Clearing houses' services shall constitute the following services:

a) clearing,

b) financial settlement of transactions under clearing,

c) settlement of transactions under clearing by means other than money (i.e. goods),

d) underwriting commitments in connection with the settlement of exchange transactions,

e) operating facilities for securities lending and borrowing.

Organizations Licensed to Provide Clearing House Services

Section 335.

(1) Of the clearing house services

a) a specialized credit institution (hereinafter referred to as 'clearing house') may perform all activities specified under Section 334 as its exclusive activity,

b) a limited liability company may perform the activities specified in Paragraphs a), c) and e) Section 334 as its exclusive activity,

c) an exchange may perform the activities specified in Paragraphs a), c) and e) Section 334.

(2) Under Paragraphs b) and c) of Subsection (1) of this Section the clearing corporation shall perform either or both of the activities defined in Paragraphs a) and c) of Section 334.

(3) A foreign corporation may provide clearing services in Hungary by way of a branch office.

(4) Apart from clearing services and functions, a clearing house may only engage in the following activities:

a) central depository functions;

b) activities auxiliary to investment services specified in Paragraphs a), b), h) and i) of Subsection (2) of Section 81;

c) the financial services defined in Paragraphs b) and d) of Subsection (1) of Section 3 of the CIFE;

d) activities incidental to clearing services and functions.

(5) Any exchange that provides clearing and settlement services shall be entitled to engage in activities auxiliary to investment services specified in Paragraphs a), b), h) and i) of Subsection (2) of Section 81 in addition to the activities defined in Section 298 and in Paragraph c) of Subsection (1) of this Section.

(6) Apart from clearing services and functions, a limited liability company referred to in Paragraph b) of Subsection (1) of this Section may only engage in the following activities:

a) central depository functions,

b) activities auxiliary to investment services specified in Paragraphs a), b), h) and i) of Subsection (2) of Section 81,

c) activities incidental to clearing services and functions.

(7) The following services shall be recognized as incidental to clearing services:

a) informatics,

b) data disclosure,

c) share register,

d) education.

Chapter XLIII

CENTRAL DEPOSITORIES
Section 336.

(1) The Commission may compel a clearing house or a limited liability company specified in Paragraph b) of Subsection (1) of Section 335 to simultaneously provide the following central depository services:
   a) operating a central register of securities,
   b) issuing ISIN codes,
   c) creating, retiring and keeping records of dematerialized securities,
   d) issuing written instruments for the offering of securities issued in the domestic territory on foreign markets;
   e) issuing written instruments for the offering of foreign securities in the domestic territory.

(2) The Commission may instruct a clearing house or a public limited company specified in Paragraph b) of Subsection (1) of Section 335 to provide the services listed under Subsection (1) if
   a) there is no one available who concurrently provides all of the services listed under Subsection (1);
   b) there are no guarantees that the services defined in Paragraphs a)-c) of Subsection (1) are provided under the same principle;
   c) they are justified by the international relations of the Hungarian capital markets.

(3) The clearing house or the public limited company specified in Paragraph b) of Subsection (1) of Section 335 required to perform central depository functions shall carry out such activities in compliance with the rules approved by the Commission.

(4) The central depository shall be liable to ensure that the quantity of securities recorded on central securities accounts corresponds with the quantity of the respective securities issued.

(5) The central depository shall make every effort within its power to ensure that the rights attached to financial instruments recorded on the accounts it maintains can be exercised.

(6) The ISIN code shall be obtained by the issuer in the case of securities, and in the case of exchange products by the exchange market where it is listed.

Chapter XLIV

LICENSURE OF CLEARING HOUSES

Section 337.

(1) A clearing corporation shall be authorized to provide the services defined in Section 334 and in Paragraph b) of Subsection (4) of Section 335 to exchanges, other clearing corporations, investment service providers, credit institutions, commodities brokers, investment fund managers, actors in recognized markets as specified by law, and issuing houses, including foreign exchanges, corporations providing clearing and settlement and central depository services and foreign issuing houses, foreign investment service providers, foreign credit institutions, foreign commodities brokers, foreign investment fund managers and foreign issuing houses. Services to foreign issuing houses shall be provided only in connection with the securities that they issue, excluding foreign issues of secondary securities where the underlying principal securities are issued in Hungary. Services to foreign investment fund managers shall be provided solely in connection with the investment certificates they manage. The clearing corporation designated to provide central depository services may provide services to the Hungarian State, the central budgetary agencies managing public funds and other organizations involved in the management of public funds, and also to the NBH.

(2) A clearing house shall be allowed to provide the service specified in Paragraph b) of Subsection (1) of Section 3 of the CIFE only to its clearing members, only for the settlement of transactions it has cleared for a maximum period of ninety days, and subject to mandatory security to be demanded in the form laid down in its internal regulations in the event of non-performance.

(3) A clearing house shall be allowed to engage in the service specified in Paragraph d) of Subsection (1) of Section 3 of the CIFE only if incidental to exchange transactions, over-the-counter securities
transactions, securities offering, payments made in connection with securities, settlements under commission, investment services, payments based on liabilities embodied in securities, and commodity exchange services.

Section 338.

(1) A clearing house may commence operations that is in possession of the Commission's authorization. The Commission shall license specific services individually, or shall issue a single license for all services.

(2) The provisions of the CIFE shall apply to the foundation, operation and supervision of clearing houses subject to the exceptions set forth in this Act.

(3) A clearing house must have at least two billion forints in subscribed capital.

(4) A license to provide clearing house services shall be granted only to an applicant who has registered shares and who is established in the Republic of Hungary; furthermore, with the exceptions set forth in Subsections (5) and (6) applicants must also have
   a) liability insurance coverage of at least one hundred million forints per claim;
   b) agreements in principle with at least one exchange market for the services to be provided;
   c) agreements in principle with at least ten investment service providers and/or commodities brokers, who are members of the same settlement system, for the services to be provided;
   d) the necessary personnel, equipment and security facilities; and
   e) adopted the internal regulations prescribed by this Act.

(5) A limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 may be licensed to engage in clearing services and functions if having at least five hundred million forints in subscribed capital and if it satisfies the requirements laid down in Subsection (4).

(6) An exchange may be licensed to engage in the clearing services and functions specified in Section 334 if it satisfies the requirements specified in Paragraphs c)-e) of Subsection (4).

(7) A branch office may be licensed to engage in the clearing services and functions if the foreign applicant establishing the branch office provides proof of having satisfied the requirements laid down in Subsections (3)-(6), and
   a) there is a valid and effective international cooperation agreement, based on mutual recognition of supervisory authorities, which covers the supervision of branch offices between the Commission and the supervisory authority competent for the place where the foreign company is registered;
   b) the country in which the applicant is established has legal regulations on money laundering that conform to the requirements prescribed under Hungarian law;
   c) the foreign applicant has adopted the internal regulations prescribed by this Act;
   d) the foreign applicant provides a statement in which it offers full guarantees for the liabilities incurred by its branch office under its corporate name;
   e) the applicant has submitted the permit for the foundation of a branch office issued by the supervisory authority competent for the place where he is registered, and/or its declaration of approval or acknowledgment;
   f) the legal system of the country where the applicant is established guarantees the prudent and sound management of the applicant;
   g) a certificate from the supervisory authority of the country where the applicant is established confirming that it its seat and its main office is in that country.

Section 339.

Applications for authorization to engage in clearing services shall have the following attached:
   a) The limited liability company charter document, bylaws and certificate of incorporation issued within three months to date;
   b) a document in proof of payment of the initial capital;
   c) agreements in principle with exchange markets or clearing members;
d) executive summary of the applicant's organizational and management structure and decision-making and control mechanisms, if they are not contained in the charter document in sufficient detail;

e) executive summary of the clearing services proposed to be performed, in particular clearing and settlement mechanisms and methods, data processing, archiving and data protection solutions;

f) within the scope of Paragraph e) of Subsection (4) of Section 338, detailed description of the equipment and technical devices available or planned to be purchased, so as to substantiate

1) that the applicant's settlement system has sufficient facilities to ensure accuracy, reliability and transparency,

2) that the applicant's data management system satisfies the requirements of reliable data protection (storage, archiving, search);

g) internal regulations;

h) a business plan for the first three years of operations;

i) a liability insurance policy;

j) a statement on the proposed date for commencing clearing and settlement operations;

k) a list of the executive officers.

Section 340.

(1) The Commission shall issue, alter and revoke licenses for clearing house services in agreement with the President of the NBH.

(2) The financial services provided by clearing houses shall be governed by the provisions of the CIFE, and the activities of the clearing corporation auxiliary to investment services shall be governed under Parts Four and Five of this Act, with the exceptions specified in this Part.

(3) The Commission shall revoke the license it has issued to authorize the operations of clearing houses if

a) it was obtained by misleading the Commission or through any other illegal conduct;

b) the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time;

c) the clearing corporation fails to commence within six months the activities to which the license pertains, or has not engaged in such activities for more than six months;

d) the clearing corporation retires from the activity to which the license pertains;

e) the clearing corporation repeatedly or seriously violates the provisions laid down in this Act and in specific other legislation regarding the activity to which the license pertains;

f) the license of the founder, if a branch office, has been revoked by the supervisory authority responsible for the place where the founder is established.

(4) The Commission shall revoke the license authorizing operations under Paragraph d) of Subsection (3) if the clearing corporation has satisfied all its commitments to clients, and if the settlement service provided to an exchange market has been taken over by another clearing corporation.

Chapter XLV

PROVISIONS CONCERNING THE ACQUISITION OF HOLDING IN A CLEARING CORPORATION

Section 341.

(1) Holding in a clearing corporation may be acquired by

a) the NBH,

b) an exchange,

c) investment enterprises and commodities brokers,

d) credit institutions,
(1) Anyone acquiring or increasing a qualifying holding in a clearing house, or in a limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 so as to achieve twenty-five, thirty-three, fifty, sixty-six, seventy-five, or one hundred per cent control of the capital or voting rights, whether directly or indirectly, shall advise the Commission, the clearing house or the limited liability company referred to in Paragraph b) of Subsection (1) of Section 335, as well as the exchange for which the corporation provides clearing and settlement services and in which the said qualifying holding was acquired, concerning the acquisition within five days.

(2) Any person holding a share in a clearing house or in a limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 in the measure specified in Subsection (1) shall be required to notify the Commission and the exchange for which the said clearing house or limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 provides clearing and settlement services, within two days if

a) he has disposed of his qualifying holding in its entirety, or
b) or he has disposed of his share to an extent whereby his share or voting right has dropped below the ten, twenty-five, thirty-three, fifty, sixty-six, seventy-five, or one hundred per cent threshold.

(3) The notification, if it pertains to Paragraph b) of Subsection (2), shall indicate the share or voting that remains in the holding of the person in question.

(4) The clearing house or public limited company referred to in Paragraph b) of Subsection (1) of Section 335 shall notify the Commission within five business days if it gains knowledge of any acquisition or disposal of its shares in the measure specified in Subsection (1) of this Section and simultaneously publish by way of the means specified under Subsection (5) of Section 37.

Chapter XLVI

CONFLICT OF INTEREST

Section 343.

(1) Any person in the employment of a clearing house or a limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 may not hold an executive office or be in the employment of an investment service provider, commodities broker, clearing member or issuer of securities which are listed on an exchange, other than the securities issued by the clearing house, the limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 or an exchange.

(2) Any person in the employment of a clearing house or a limited liability company referred to in Paragraph b) of Subsection (1) of Section 335 may not have any direct holding in an investment service provider.
Chapter XLVII

SERVICE OBLIGATION OF CLEARING HOUSES AND OTHER SIMILAR BODIES PROVIDING CLEARING OR SETTLEMENT SERVICES

Section 344.

(1) A clearing corporation shall enter into a clearing contract with a person who
a) meets the requirements fixed in the clearing corporation's internal regulations in terms of financial stability,
   b) agrees to supply data and information as required,
   c) has the objective and technical facilities stipulated in the clearing corporation's internal regulations,
   d) agrees to abide by the clearing corporation's internal regulations.
(2) All clearing contracts must be made in writing. Clearing contracts shall specify the types of transactions for which the clearing corporation provides clearing and settlement services.

Rules and Regulations Required for Clearing Operations

Section 345.

(1) The services listed under Section 334 shall be provided as governed by standard service agreements and other regulations, which are to be approved by the Commission.
(2) The standard service agreements and regulations referred to in Subsection (1) shall contain provisions to govern
   a) the commencement and termination of membership in the clearing system, and the financial and technical conditions to be satisfied by clearing members;
   b) the criterion concerning monetary and securities accounts;
   c) clearing and settlement procedures;
   d) lending and borrowing of money and securities;
   e) risk management mechanisms;
   f) the creation and allocation of mandatory provisions;
   g) the procedures for underwriting commitments in connection with exchange transactions;
   h) the procedures for setting up, use and administration of collateral accounts;
   i) the rules under which deposit services are provided;
   j) the data and information to be disclosed by clients to the clearing corporation, and the manner in which to provide such information;
   k) the disciplinary actions to be applied by the clearing corporation, as well as any legal recourse available;
   l) the rules on investment-related activities permitted for the executive officers and employees of the clearing corporation;
   m) the fees charged by the clearing corporation for services rendered;
   n) the fees charged for central depository services.
(3) In connection with the settlement of transactions, a date must be specified in the standard service agreement or in other internal regulations following which an instruction for clearing or settlement cannot be revoked.
(4) The standard service agreements and other internal regulations of a clearing corporation may not contain any provisions in contradiction of the principle of equal treatment among its clients.
(5) The clearing corporation shall present the draft versions of its standard service agreement and other internal regulations for endorsement to the exchange for which it provides settlement services under contract.
(6) The Commission shall grant its approval for the standard service agreement and other internal regulations of a clearing corporation in agreement with the President of the NBH. The President of the NBH shall refuse to give his consent if the standard service agreement or the internal regulations are not in compliance with the requirements prescribed in the relevant statutory regulations.

(7) The Commission shall not grant approval if
   a) the standard service agreement or other internal regulation violates the provisions of this Act or any other legal regulation;
   b) the regulation fails to conform with the standard service agreement or with other regulations.
   c) the President of the NBH has not consented as specified in Subsection (6).

(8) The clearing corporation shall publish, by way of the means specified under Paragraph b) or c) of Subsection (5) of Section 37, its standard service agreement and other internal regulations as well as any amendments thereto following approval by the Commission. The clearing corporation shall not be compelled to publish the regulation referred to in Paragraphs e) and l) of Subsection (2).

(9) The clearing corporation's standard service agreement and other internal regulations shall enter into effect following their publication as specified in Subsection (6).

(10) In justified cases the Commission may postpone the operative date of internal regulations, or their amendments by maximum thirty days from the deadline referred to in Subsection (9).

(11) The internal regulations of the clearing house may be contested in court if they violate the provisions of this Act or any other legal regulation.

Special Regulations Concerning Clearing and Settlement Operations

Section 346.

(1) In security for the settlement of transactions the clearing house shall operate a guarantee system under which it may demand guarantees in the form of collateral accounts, mandatory provisions and other pledges.

(2) The funds and securities recorded on the account of a clearing member provided in the manner and in the measure stipulated by the regulations of the clearing house in security for the settlement of transactions shall serve to ensure the settlement of transactions. In the event of a clearing member's failure to perform, all funds and securities recorded by the clearing house as the property of the said clearing member shall serve to cover his transactions. Regarding the creation and appropriation of collateral accounts the provisions on security shall apply.

(3) When the collateral specified in Subsections (1) and (2) has been enforced the clearing house shall advise the clearing member in question to supplement it without delay. Collateral shall be supplemented from any revenues of the clearing member in priority before any other liability.

Section 347.

(1) The clearing corporation must handle and keep records of all investment instruments and liquid assets of investment service providers and commodities brokers, and those of their clients, separately from one another and from its own assets.

(2) The NBH shall operate the current accounts of clearing corporations.

(3) It is not mandatory for a clearing corporation to join the National Deposit Insurance Fund or the central credit information system.

Section 348.

(1) A clearing house shall be entitled to operate the collateral accounts created for risk management according to the instructions laid down in its regulations.
Subject to mandatory measures specified in its regulations, a clearing house may finance the full purchase price of shares, giving a right to participate in company capital.

Section 349.

A clearing corporation may operate a securities lending and borrowing system under the rules laid down in its internal regulations. In connection with securities lending arrangements concluded under the system operated by a clearing corporation the parties may deviate from the terms and conditions prescribed under Subsections (3) and (4) of Section 168.

Section 350.

(1) A clearing corporation must create provisions to cover any future losses. The form and extent of such provisions concerning clearing houses shall be governed by the provisions of the CIFE, while in respect of other similar bodies providing clearing or settlement services it shall be governed by specific other legislation.

(2) A clearing corporation may only invest its own free assets and the free assets of investment service providers and commodities brokers as well as those of their clients’ assets that it manages in government securities and debt securities of credit institutions; the clearing corporation may also place these free assets into deposits with the NBH and credit institutions or use them for sale-repurchase (repo) agreements. When placing the aforementioned assets into deposit accounts, the clearing corporation must exercise sufficient precautions to ensure the security of such deposits. In addition to the above, a clearing house shall also be entitled to provide monetary loans subject to the legal regulations pertaining to monetary loans.

Chapter XLVIII

INVESTMENT REGULATIONS

Section 351.

(1) A clearing corporation may not acquire any holding in a company and may not be a member in a company whereby to invoke unlimited liability for the debts of the company in question, regardless of its percentage of holding.

(2) With the exception specified in Subsection (3), a clearing corporation may acquire any direct holding only in connection with clearing and settlement services in financial institutions, investment enterprises, clearing houses, exchanges, or associated enterprises that have business interests exclusively in financial institutions, investment enterprises, clearing houses and exchanges. The clearing house shall be entitled to acquire ownership of publicly issued securities if it is for the purpose of issuing secondary securities.

(3) The clearing house shall alienate any share it has acquired under mandatory measures specified in its regulations within one year.

Data Management and Confidentiality

Section 352.

(1) In order to attend to its duties prescribed in this Act, a clearing corporation shall be entitled to process personal data in connection with any transaction to which it is a party.

(2) In the course of their activities, clearing corporations shall observe all regulations pertaining to business secrets, bank secrets, securities secrets and insider trading.
(3) The clearing corporation shall notify the Commission immediately of any conduct it detects in its official capacity, that violates the provisions of this Act and other legal regulations decreed by authorization conferred in this Act.

Chapter XLIX

LIQUIDATION OF CLEARING HOUSES AND OTHER SIMILAR BODIES PROVIDING CLEARING OR SETTLEMENT SERVICES

Section 353.

(1) The liquidation of clearing houses shall be carried out in accordance with the provisions on the liquidation of credit institutions, while the liquidation of other similar bodies providing clearing or settlement services shall be carried out under the general provisions on liquidation, with the exceptions set forth in Subsections (2) and (3).

(2) The security and collateral referred to in Subsections (1) and (2) of Section 346 held by a clearing corporation that is subject to liquidation shall not be included in the assets of the clearing corporation for the purposes of liquidation.

(3) By way of derogation from the provisions of Section 57 of the Bankruptcy Act governing the sequence of the satisfaction of claims, account-related claims shall be satisfied following settlement of liquidation charges.

Chapter L

SPECIAL REGULATIONS PERTAINING TO CENTRAL DEPOSITORIES

Section 354.

(1) The central depository shall be required to enter into a contract with a prospective client who satisfies the requirements prescribed by law and agrees to abide by the terms and conditions fixed in the central depository's internal regulations.

(2) The NBH shall be entitled to acquire a holding without any limitations and without special authorization in a clearing house designated to provide central depository services.

(3) A clearing house shall be relieved from its statutory requirement to provide central depository services if continuation of such services is ensured by designation of another depository.

PART ELEVEN

COMMON PROVISIONS CONCERNING THE OPERATIONS OF CORPORATIONS ON THE CAPITAL MARKETS

Chapter LI

SHARE REGISTERS

Section 355.

(1) The board of directors of the investment enterprise shall keep a share register on the shares and shareholders of investment enterprises, commodities brokers operating as incorporated companies limited by shares, investment fund managers, exchanges and clearing corporations that is to contain at least the following information:
(1) Subject to the exception set out in Subsection (2), the persons nominated to be elected or appointed as executive officers of investment service providers, commodities brokers, investment fund managers, exchanges and clearing corporations
   a) must have a college or university degree;
   b) must have at least three years of managerial experience in the fields of finance or economics (with the exception of supervisory board members);
   c) shall have no prior criminal record;
   d) shall not be subject to the disqualifying factors listed under Section 357.

(2) The criteria referred to in Paragraph a) of Subsection (1) shall not apply to members of the supervisory boards of commodities brokers. The criteria referred to in Paragraph a) of Subsection (1) shall apply to the general manager in the case of commodities brokers authorized under Paragraph b) of Subsection (2) of Section 89.

(3) Any person elected an executive employee to effectively direct the business of a financial holding company or a mixed financial holding company must satisfy the conditions set out in Subsection (1).
if the license of such institution has been revoked by the Commission, and who was found personally liable for the above-specified developments by decision of a disciplinary forum;

b) has repeatedly engaged in any serious violation of the provisions of acts and other legal regulations adopted by authorization conferred by such acts governing the duties of the Commission, in consequence of which the Commission or another authority or court has imposed sanctions by final decision or judgment within five years previously, or has been reprimanded by the ethics committee of an exchange or other similar organization for breach of the code of ethics within five years previously;

c) refuses to voluntarily supply the information required for an authorization procedure in connection with his acquisition of a holding, if such information cannot be obtained from the authorities of the country of residence or corporate domicile.

(2) The sanction or penalty referred to in Paragraph b) of Subsection (1) shall be taken into consideration only if imposed against the same person at least three times within the preceding five-year period.

(3) In the application of Paragraph c) of Subsection (2) of Section 107, the following instances shall be deemed harmful to the prudent management of the investment enterprise:

a) when the prospective owner's conduct or influence in the investment enterprise is likely to endanger the independent, sound and prudent management of the investment enterprise;

b) when the prospective owner's business activities or relations, or direct or indirect holding or holdings in other companies are of such a nature as to obstruct proper supervision.

(4) If a person who falls within the scope of Subsection (1) of this Section has been indicted by the public prosecutor for any criminal conduct specified under Titles VII and VIII of Chapter XV and under Chapters XVII and XVIII of Act IV of 1978 of the Criminal Code, or has been indicted by the competent authority of a foreign country for a property or economic crime that is punishable under Hungarian law, until the conclusion of the criminal proceedings

a) the person in question shall be suspended from the position he holds under Subsections (1)-(5) of Section 97, Subsections (1)-(2) of Section 98, Subsection (1) of Section 99 or Points 1-4 of Schedule No. 11 at an investment service provider, commodities broker, investment fund manager, exchange or clearing corporation, and such person shall be suspended from any executive office held at an exchange or clearing corporation;

b) the Commission shall suspend the procedure for the registration of such a person in a register specified under Subsection (6) of Section 97 and Subsection (3) of Section 98;

c) the Commission grant the authorization referred to in Section 107, Subsection (2) of Section 307, and Subsection (2) of Section 343 with the owner's voting right suspended, provided if all other requirements are satisfied.

(5) The disqualifying factors specified in Subsections (1)-(4) shall also apply to the applicant's activities in foreign countries.

Audit

Section 358.

(1) An investment enterprise, investment fund manager, an exchange or clearing corporation may only appoint a certified auditor or registered auditor (auditing firm) if they satisfy the requirements specified below in addition to the conditions prescribed in the Companies Act pertaining to auditors:

a) the appointed auditor must be registered in the Commission's register - maintained as prescribed in the CIFE - on auditors of financial institutions or on auditors of investment enterprises,

b) the appointed auditor must not have any direct or indirect holding in the investment enterprise, the investment fund manager, the exchange or the clearing corporation,

c) the appointed auditor must not have any debt owed to the investment enterprise, the investment fund manager, the exchange or the clearing corporation, and
d) the investment enterprise, the investment fund manager, the exchange or the clearing corporation, or any of their owners with a qualifying holding must not have any direct or indirect holding in the auditing firm.

(2) Fund managers must commission the services of an auditor to review the annual account of the investment fund they manage. The auditor commissioned by a fund manager shall also inspect the fund manager's compliance with the provisions laid down in the fund's operating regulations.

(3) A fund manager may only commission for the duties specified in Subsection (2) a certified auditor or registered auditor (auditing firm) who satisfies the requirements specified below:

a) the commissioned auditor must be registered in the Commission's register - maintained as prescribed in the CIFE - on auditors of financial institutions or on auditors of investment enterprises,

b) the commissioned auditor must not have any direct or indirect holding in the investment fund manager,

c) the commissioned auditor must not have any debt owed to the investment fund manager, and

d) the investment fund manager or any of its owners with a qualifying holding must not have any direct or indirect holding in the auditing firm.

(4) The restrictions stipulated in Paragraphs b) and c) of Subsection (1) and in Paragraphs b) and c) of Subsection (3) shall also apply to the close relatives of the auditors.

(5) The term of the auditor of an investment enterprise, an investment fund manager, an investment fund, an exchange or a clearing corporation, if a natural person, shall be limited to five years, and it may not be renewed. An auditor employed or contracted by an auditing firm may audit the books of the same investment enterprise, for the same investment fund manager, the same investment fund, and the same exchange or clearing corporation for a maximum period of five years.

(6) Above and beyond the provisions of Subsections (1) and (3), an auditor who is a natural person shall be subject to additional restrictions, namely, that such an auditor shall be permitted to audit the books of a maximum of five of the same kind of institution or five investment funds at any given time and, furthermore, that his income (revenue) from any one institution or any one investment fund may not be greater than thirty per cent of his annual income. The income (revenue) of an auditor from credit institutions, financial enterprises, investment enterprises, investment fund managers, exchanges or clearing corporations controlled by the same group or his income (revenue) from investment funds managed by managers that are controlled by the same group may not be greater than sixty per cent of his annual income (revenue).

(7) Above and beyond the provisions of Subsections (1) and (3), auditing firms shall be subject to additional restrictions, namely, that any auditor in the employ of an auditing firm - who satisfies the requirements set forth in Subsections (1) and (3) - shall be permitted to audit the books of maximum five institutions of the like or five investment funds at any given time, and his income from any one institution or any one investment fund may not exceed ten per cent of his annual income. The income of an auditing firm from credit institutions, financial enterprises, investment enterprises, investment fund managers, exchanges or clearing corporations controlled by the same group, or from investment funds managed by managers controlled by the same group may not exceed thirty per cent of its annual revenues.

Section 359.

(1) The Commission shall enter an auditor in the register of auditors certified to audit investment enterprises if

a) the auditor has worked for at least three years in accounting and control at an investment enterprise, investment fund manager, exchange or clearing corporation, or at the Commission as a controller or supervisor of investment enterprises and, furthermore, has at least two years of experience as an auditor if the latter experience covers the activities specified in Subsection (2) of Section 26 of Act LV of 1997 on the Chamber of Hungarian Auditors, or
b) has worked in the field of auditing for at least three years and has worked for at least two years as an assistant to the auditor of an investment enterprise, investment fund manager, investment fund, exchange or clearing corporation.

(2) The Commission shall pass a resolution to remove an auditor from the register of auditors certified to audit investment enterprise if
   a) the auditor no longer complies with the requirements for registration;
   b) the auditor fails to fulfill the obligations specified in the legal regulations.

(3) If the Commission removes an auditor from the register, the Hungarian Auditors Association shall initiate ethics proceedings against the auditor in question.

(4) If the Hungarian Auditors Association initiates ethical proceedings against an auditor certified to audit investment enterprises, it shall simultaneously notify the Commission thereof.

Section 360.

(1) The auditor appointed by an investment enterprise, investment fund manager, an exchange or a clearing corporation, or commissioned by an investment fund manager to audit the books of the investment fund it manages, shall forthwith notify the Commission - in writing - at the same time that he notifies the audited institution or the fund manager of the results of his audit if he finds facts on the basis of which
   a) the books cannot be endorsed or endorsement can only be granted subject to certain conditions, or he is compelled to refuse endorsement altogether,
   b) he detects circumstances indicating criminal acts or any severe violation of the internal regulations of the investment enterprise, investment fund manager, exchange or clearing corporation or the investment fund's operating regulations, or the imminent danger thereof,
   c) he detects any circumstances indicating any serious violation of this Act or other legal regulations, or of regulations decreed by the NBH, or of the internal regulations of the exchange or clearing corporation,
   d) he does not find the fulfillment of the obligations of the investment enterprise, investment fund manager, exchange or clearing corporation and the safekeeping of the assets entrusted to it to be ensured,
   e) he feels that the fund manager's activities do not guarantee the investors' interest,
   f) he ascertains that there are serious deficiencies or insufficiencies in the internal control regime of the investment enterprise, investment fund manager, exchange or clearing corporation,
   g) a considerable difference of opinion has emerged between the auditor and the management of the investment enterprise, investment fund manager, the exchange or clearing corporation regarding issues affecting the solvency, income, data disclosure or accounting of the investment enterprise, the investment fund manager, the exchange or the clearing corporation, which are essential from the point of view of the institution's operations.

(2) The auditor inspecting the consolidated annual report of an investment enterprise shall notify the Commission in writing if his findings with respect to a company with a dominant influence over the investment enterprise reveal any facts that adversely affect the continuous functioning of the investment enterprise or indicate the occurrence of what is contained in Paragraphs a) and c) of Subsection (1).

(3) Over and above the cases defined under Subsection (1)
   a) the auditor shall have the right to consult with the Commission, and to convey the findings of his audit to the Commission,
   b) the Commission shall be entitled to demand and receive information from the auditor concerning the findings of his audit.

Section 361.

When an auditor fails to comply with his obligations prescribed by legal regulation, the Commission shall be authorized to order the investment enterprise, investment fund manager, the exchange or clearing corporation concerned to dismiss such an auditor, and to appoint another one who satisfies the
requirements laid down in Section 358. When the Commission motions under Paragraph d) of Subsection (1) of Section 400 for the discharge of the auditor of an investment enterprise, investment fund manager, investment fund, the exchange or a clearing corporation, the auditor in question may also be removed from the register of auditors certified to audit financial institutions or investment enterprises.

Section 362.

(1) When auditing the annual account of an investment enterprise the auditor shall also examine the following:
   a) the accuracy of evaluations by professional standards,
   b) whether the prescribed and necessary value adjustments and readjustments have been made,
   c) whether the prescribed and necessary provisions have been set aside,
   d) the conformity of risk management regimes;
   e) compliance with the provisions on solvency margin, capital requirement, capital adequacy, financial stability and liquidity, and also the regulation pertaining to the various investment services,
   f) compliance with the legal provisions on prudential management for effective, reliable and independent operations, and with the provisions of legal regulations on financial transactions, internal regulations of the exchange and the clearing corporation, and with the resolutions of the Commission and the central bank, and
   g) the operation of the adequate controlling systems.

(2) Upon conclusion of the audit, the auditor must record his findings on the issues specified in Subsection (1) in a separate supplementary report and send it to the board of directors, the managing director, the chairman of the supervisory board, and the Commission in the following year within fifteen days following the general meeting. The structure of the supplementary report is contained in specific other legislation.

Section 363.

(1) Investment enterprises, investment fund managers, the exchange and clearing corporations must send to the Commission the contract concluded with the auditor for auditing the annual report and all of the reports prepared by the auditor regarding the annual report.

(2) Prior to the approval of the annual report, the Commission is entitled, on the basis of the auditor's report, to instruct the given investment enterprise, investment fund manager, exchange or clearing corporation to re-examine the annual report that contains incorrect or inaccurate data, implement the necessary corrections and have the corrected data verified by an auditor.

(3) If, after the annual report has been approved, the Commission discovers that the annual report contains any substantial error, the Commission may compel the investment enterprise, investment fund manager, exchange or clearing corporation concerned to have the figures revised and verified by an auditor. The investment enterprise, investment fund manager, exchange or clearing corporation concerned must present the revised data verified by an auditor to the Commission.

Protection of Designation

Section 364.

(1) A corporation that is engaged in activities other than those falling under the scope of this Act shall not be permitted to include in its corporate name any misleading designation, nor use it for business or advertisement purposes, that has the capacity to create any false impression that the company in question is engaged in investment services, commodity exchange services, investment fund management, exchange transactions, or in the settlement of exchange and over-the-counter transactions.
(2) Any corporation that is engaged in activities governed by this Act must include its license number and exchange membership in all business correspondence, documents and advertisements published in a written form (printed or electronic format).

Section 365.

(1) The designation "investment fund manager", or any combination or attributive forms or the foreign equivalent thereof, and any other terms of identical, similar or synonymous meaning may only be used in the corporate name, advertisement, or in any other correspondence of companies providing fund management services which have been founded and are operated in compliance with this Act. These restrictions shall not apply to supervisory, trade and interest representation organizations of fund managers.

(2) The designations "investment fund", "close-ended fund", "open-ended fund", "bond trust", "securities trust", "money market trust", "combination trust", "index-driven fund", "fund investing in investment funds", "fund investing in derivative instruments", "real estate fund", Europe-based investment fund", may only be used in the names of investment funds which have been founded and are operated in compliance with this Act.

Section 366.

(1) Any dispute concerning a company's entitlement to use a designation under Sections 364 or 365 shall be resolved by the Commission.

(2) Any entity who violates the provisions laid down in Section 364 and 365 shall be fined by the Commission and shall be banned from any further use of such a designation. The fine may be imposed repeatedly when necessary.

Advertising Regulations

Section 367.

(1) Advertisements for the services falling under the scope of this Act may only be published by an investment service provider, commodities broker, investment fund manager, exchange or clearing corporation that is registered in Hungary and is licensed to engage in investment services, activities auxiliary to investment services, commodity exchange services, investment fund management services, exchange services and clearing and settlement services.

(2) Apart from the institutions referred to in Subsection (1), advertisements for the services falling under the scope of this Act may only be published by an investment service provider, investment fund manager, exchange or clearing house that is established in a Member State of the European Union in connection with the services for which it is licensed.

(3) The advertisement for services falling under the scope of this Act shall be supervised by the Consumer Protection Agency and its county and Budapest branches, and by the Economic Competition Office in accordance with the provisions of Act LVIII of 1997 on Business Advertising Activities.

(4) For the purposes of this Act 'advertisement' shall mean any attempt to focus attention on a particular investment service provider, commodities broker, investment fund manager, exchange or a clearing corporation, or on investment services, activities auxiliary to investment services, commodity exchange services, investment fund management services, exchange services or clearing and settlement services by commercial means, irrespective of whether it is done through printed products published in the country or by mail; by distribution of labels, cards, stickers, fliers, playing records, catalogues, price lists or other printed materials; by the performance of movies, television or radio programs transmitted in the territory of the country and broadcast at the order of domestic program providers; conveyed through electronic channels or in any other form, including advertisements that appear in articles or programs whose primary
purpose is not the advertisement, in the event that the article or the section of the program was created at the request or under the sponsorship of a specific service provider.

Confidentiality Requirements

Business Secrets

Section 368.

(1) For the purposes of this Act, ‘business secret’ shall have the meaning defined in Subsection (2) of Section 81 of the Civil Code.

(2) The owner or owners of an investment service provider, commodities broker, investment fund manager, exchange and clearing corporation, or any person bidding to acquire an interest in such corporations as well as executive officers and employees of these corporations shall keep confidential any business secrets made known to them in connection with the operation of the aforementioned corporations, indefinitely.

(3) The confidentiality requirement described in Subsection (2) shall not apply with regard to
a) the Commission,
b) the Investor Protection Fund,
c) the NBH,
d) the State Audit Office,
e) the Hungarian Tax and Financial Control Administration,
f) the Economic Competition Office,
g) The Government Control Office, which controls the legality and propriety of the use of central budget funds, and
h) the national security service
when attending to their official duties conferred upon them by law.

(4) The confidentiality requirement described in Subsection (2) shall not apply to matters constituting the grounds for procedure in respect of
a) investigating authorities acting within the scope of criminal procedures in progress and when investigating charges, and the public prosecutor acting in an official capacity;
b) the court acting in criminal cases or in probate proceedings, or in bankruptcy and liquidation procedures as well as in local government debt consolidation procedures,
c) the European Anti-Fraud Office (OLAF) monitoring the protection of the Community's financial interests.

(5) Subject to the provisions on business secrets, the Commission shall supply data and information on service providers that can be used for identification
a) to the Central Statistical Office for statistical purposes,
b) to the Ministry of Finance for the purpose of analyzing money and capital market trends and for planning the central budget.

(6) The Commission shall supply the Office of Economic Competition, acting in its official capacity, with data on investment service providers that can be used for identification.

Securities Secrets

Section 369.

(1) All data and information that are at the disposal of an investment service provider, commodities broker, investment fund manager, an exchange or a clearing corporation concerning specific clients relating to their personal information, financial standing, business operations and investments, ownership and business relations, and their contracts and agreements with any investment service provider,
commodities broker or investment fund manager, and to the balance and money movements on their accounts shall be construed as securities secrets.

(2) For the purposes of legal provisions pertaining to securities, any person who receives services from an investment service provider, commodities brokers, investment fund manager, an exchange or a clearing house and other similar bodies providing clearing or settlement services shall be considered a client.

Section 370.

(1) Securities secrets may only be disclosed to third parties if
   a) so requested by the client to whom it pertains, or his legitimate representative in a public document or in a private document with full probative force expressly indicating the particular securities secrets to be disclosed;
   b) this Act grants an exemption from the requirement of confidentiality concerning securities secrets;
   c) so facilitated by the interests of the investment service provider, commodities broker, investment fund manager, the exchange or the clearing corporation for selling its receivables due from the client or for the enforcement of its outstanding receivables.

(2) Under the provisions of Paragraph b) of Subsection (1), the requirement of confidentiality concerning securities secrets shall not apply to
   a) the Commission, the Investor Protection Fund, the National Deposit Insurance Fund, the National Bank of Hungary, the State Audit Office, the Economic Competition Office, the exchange and the clearing corporation, the Government Control Office, which controls the legality and propriety of the use of central budget funds, and the European Anti-Fraud Office (OLAF) monitoring the protection of the Community’s financial interests, when the above are acting within the scope of their duties,
   b) notaries public in connection with probate proceedings, and the guardian authority acting in an official capacity,
   c) bankruptcy trustees, liquidators, financial trustees, bailiffs and receivers, in connection with bankruptcy proceedings, liquidation proceedings, judicial execution procedures, in local government debt consolidation procedures, and in a voluntary dissolution proceedings,
   d) investigating authorities acting within the scope of criminal procedures in progress and when investigating charges, and the public prosecutor acting in an official capacity,
   e) the court acting in criminal or civil cases, bankruptcy and liquidation proceedings and local government debt consolidation procedures,
   f) the agencies authorized to use secret service means and to conduct covert investigations if the conditions prescribed in specific other legislation are provided for,
   g) the national security service acting within the scope of duties conferred upon it by law, based upon the special permission of the director-general,
   h) tax authorities and the customs authorities in their procedures to monitor compliance with tax, customs and social security payment obligations, and for the enforcement of an executable document issued for such debts,
      when these agencies make written requests to the investment service provider, the commodities brokers, the investment fund manager, the exchange or the clearing corporation concerned.

(3) The requirement of confidentiality concerning securities secrets shall not apply
   a) when the state tax authority makes a written request for information from an investment service provider, a commodities broker, an investment fund manager, the exchange or a clearing corporation on the strength of a written request made by a foreign tax authority pursuant to an international agreement, if the request contains a confidentiality clause signed by the foreign authority;
   b) when the Commission requests or supplies information in accordance with a cooperation agreement with a foreign supervisory authority if the cooperation agreement or the foreign supervisory authority’s request contains a signed confidentiality clause;
   c) in respect of information provided by an investment service provider under Subsection (8) of Section 52 of Act XCII of 2003 on the Rules of Taxation.
(4) Written requests shall indicate the client or the account about whom or which the agencies or authorities specified in Subsection (2) are requesting the disclosure of securities secrets as well as the type of requested data and the purpose of the request, unless the NBH or the Commission, proceeding within their scope of duties, conducts an on-site inspection.

(5) The entities authorized to receive information according to Subsections (2) and (3) shall use such information solely for the purpose indicated in the document requesting the information.

(6) Investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations may not refuse to provide information, stating their obligation to observe the requirements of confidentiality, in the cases set forth in Subsections (1)-(3) and in Section 371.

(7) The obligation to keep banking secrets shall not apply when a Hungarian law enforcement agency makes a written request for information from an investment service provider, commodities brokers, investment fund manager, the exchange or a clearing corporation on the strength of a written requests made by a foreign law enforcement agency pursuant to a treaty, if the request contains a confidentiality clause signed by the foreign law enforcement agency.

(8) The Commission and the NBH are entitled to obtain securities secrets from investment service providers, commodities brokers, investment fund managers, the exchange and from clearing corporations as part of the mandatory data disclosure they are subject to under legal regulation.

(9) The Commission may supply documents containing securities secrets to an investigation authority that is authorized under Paragraph d) of Subsection (2) to receive securities secrets.

(10) The requirement of confidentiality concerning securities secrets shall not apply with respect to data supplied by the Investor Protection Fund to foreign investor protection schemes and foreign supervisory authorities in the manner specified in cooperation agreements if they guarantee equivalent or better legal protection for the processing and utilization of such data with the protection afforded under Hungarian law.

Section 371.

(1) Any person holding any business or securities secrets shall be subject to the requirement of confidentiality indefinitely, unless otherwise prescribed by law.

(2) All facts, information, solutions or data classified as business or securities secrets may not be disclosed to any third person, other those authorized under this Act, without the consent of the client to whom it pertains, and may not be used for any purposes other than those authorized under this Act.

(3) Any person who is in possession of business secrets or securities secrets may not use them to acquire any advantage, either for himself or for any third party, whether directly or indirectly, or to cause any injury to an investment service provider, commodities brokers, investment fund manager, the exchange or a clearing corporation, or to their clients.

(4) Any information that is declared by specific other legislation to be information of public interest or public information and as such is rendered subject to disclosure may not be withheld on the grounds of being treated as a business secret.

(5) Any document retrieved from the files of an investment service provider, commodities broker, investment fund manager, an exchange or a clearing corporation that has been terminated without a successor, which document contains any business and securities secrets, may be used for archive research projects after sixty years from the date when they were created.

Section 372.

Investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations must forthwith satisfy the written requests of investigating authorities, the national security service and the public prosecutor's office concerning any transaction in which they are involved and any account they operate if it is alleged that the transaction or the account can be linked to a) trafficking of narcotic drugs,
b) terrorism,
c) illegal trafficking in arms,
d) money laundering operations,
e) organized crime.

Section 373.

When data is disclosed under Paragraphs d), f) and g) of Subsection (2) of Section 370 and under Section 372, the client concerned must not be notified. In any other cases the client must be informed when any securities secrets which pertain to him are disclosed.

Section 374.

The following shall not constitute as a breach of confidentiality concerning securities secrets:

a) the disclosure of data compilations from which the clients' personal or business data cannot be determined;

b) the disclosure of data pertaining to the name of a securities account holder or the number of his securities account;

c) the disclosure of data by an investment service provider to the central credit information system of credit institutions and the disclosure of data in compliance with the regulations of this system to an investment service provider from the system;

d) the disclosure of data to an auditor authorized by an investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation, a legal or other expert as well as to an insurance institution providing insurance coverage for the above-specified corporations to the degree necessary for the purposes of the insurance contract;

e) the supply of data among investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations to the extent and within the scope required for their activities, not including the data conveyed by investment service providers, commodities brokers and investment fund managers between one another;

f) the conveyance of data by an investment service provider, commodities broker or investment fund manager to a foreign investment service provider, commodities broker or investment fund manager if the client (the data subject) has consented in writing and the foreign party is able to satisfy the conditions of data management required by Hungarian law regarding each data item, and if the country where the registered office of the foreign party is located has legal regulations on data protection which satisfies the requirements of Hungarian legal regulations;

g) the disclosure of data to the supervisory authority responsible for the place where the foreign investment service provider, commodities broker, investment fund manager is established to the extent necessary for its oversight activities, and the disclosure of data between the foreign regulatory agency and the Commission in the manner stipulated in the cooperation agreement, if the agreement contains a clause regarding the necessity of a confidentiality commitment signed by the foreign supervisory authority;

h) the disclosure of data upon the written consent of the board of directors of an investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation to an owner who has a qualifying holding in the investment service provider, commodities broker, investment fund manager, the exchange or the clearing corporation in question, a person (company) bidding to acquire a qualifying holding, a company planning to take over the business as well as auditors, and legal or other experts authorized by such an owner or such potential owners;

i) upon request of court, presenting the specimen signature of the persons authorized to dispose of the account of a party in a lawsuit;

j) data disclosed by the Commission in compliance with the requirement of confidentiality concerning securities secrets suitable for the identification of investment service providers, commodities brokers, investment fund managers, the exchange or clearing corporations
1) to the Central Statistical Office for statistical purposes;
2) to the Ministry of Finance for the purpose of analyzing money and capital market trends and for planning the central budget;
k) the disclosure of data that is necessary for carrying out activities that have been outsourced to the business association performing the outsourced activity;
l) the disclosure of data in order to comply with the provisions contained in Chapters XIX/A and XIX/B of this Act, in Chapters XIV and XIV/A of the CIFE and in Chapter III/A of Part Eight of the Insurance Act;
m) the publication of the disposition of a Commission decision in a matter of insider trading and unfair manipulation of prices form the standpoint of the person who has committed these offenses.

Supply of Data Compilations

Section 375.

Unless prescribed by law to the contrary, the Commission may supply compilations of data on investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations to third persons or to any authority only if the identity of such corporations cannot be determined by that data.

Chapter LI

MONEY AND CAPITAL MARKETS ARBITRATION TRIBUNAL

Section 376.

(1) The trade organizations of the exchange markets, credit institutions and investment enterprises may jointly establish and operate the Money and Capital Markets Arbitration Tribunal.

(2) In terms of the competencies and the procedures of the Money and Capital Markets Arbitration Tribunal the provisions of the Arbitration Act shall apply, with the exceptions laid down in Subsections (3)-(6) below.

(3) The Money and Capital Markets Arbitration Tribunal shall have jurisdiction in any disputes

a) in connection with the offering of securities, investment and commodity exchange services, and activities auxiliary to investment services falling within the scope of this Act;
b) between investors in connection with investment instruments;
c) in connection with shareholders’ rights;
d) in connection with exchange transactions;
e) regarding an investment service provider's refusal to provide service to a client in connection with investment instruments;
f) in connection with the exchange's internal regulations;
g) in connection with the bylaws, standard service agreement and internal regulations of clearing corporations;
h) clearing corporation financial services and activities auxiliary to financial services;
i) in connection with other services provided by investment and financial service providers, if they do not violate any exclusive right, if the parties concerned have stipulated to resort to arbitration in an arbitration agreement and if they are able to freely dispose over the subject of the proceeding.

(4) The Money and Capital Markets Arbitration Tribunal may be called to intervene regardless of whether or not the requirement specified in Paragraph a) of Subsection (1) of Section 3 of the Arbitration Act is satisfied.

(5) The cases defined in Paragraphs a), b) and d)-i) of Subsection (3) may only be conferred for arbitration to the Money and Capital Markets Arbitration Tribunal, including the cases deemed
international under Section 47 of the Arbitration Act. Exclusivity obtains only with regard to domestic arbitration tribunals.

(6) Credit institutions and investment enterprises shall insert a clause in the standard service agreement concerning arbitration when it is next amended; however, such amendment must take place by 31 December 2003 in compliance with the regulations of this Section.

(7) The compulsory procedure of the Money and Capital Markets Arbitration Tribunal as specified in this Section shall not affect the validity of any clause stipulating the jurisdiction of the Arbitration Tribunal of the Hungarian Chamber of Commerce and Industry
   a) if the contract was concluded before 1 January 2002, and
   b) if contained in the standard service agreement of credit institutions and investment enterprises before the amendment specified in Subsection (6).
Where these clauses exist, the Arbitration Tribunal of the Hungarian Chamber of Commerce and Industry shall remain to have jurisdiction to settle any legal disputes, unless the parties stipulated otherwise.

(8) Members of the panel of arbitrators of the Money and Capital Markets Arbitration Tribunal shall be appointed for a fixed term by the general meeting of the exchange and the annual meeting of the special interest organizations on the basis of the recommendation of the executive panel of the Exchange Arbitration Tribunal for the first time and by the executive panel of the Money and Capital Markets Arbitration Tribunal thereafter.

(9) The Money and Capital Markets Arbitration Tribunal is a legal person headquartered in Budapest.

(10) The Money and Capital Markets Arbitration Tribunal shall be vested with legal personality on the day its charter document is published in the Financial Gazette. Publication is ordered by the Minister of Finance upon receiving notice from the Money and Capital Markets Arbitration Tribunal with the charter document attached.

(11) The charter document of the Money and Capital Markets Arbitration Tribunal shall specify
   a) the organizational structure of the arbitration tribunal,
   b) the rules for appointing the members of the executive panel,
   c) the rules for representing the arbitration tribunal,
   d) the duties and competence of the executive panel,
   e) the amount of the founder’s contribution.

(12) The operation of the Money and Capital Markets Arbitration Tribunal shall be financed from
   a) founder’s contributions,
   b) arbitration charges,
   c) yield on assets,
   d) other revenues.

(13) The Money and Capital Markets Arbitration Tribunal shall consist of a panel of arbitrators, an executive panel of a minimum of three and a maximum of five members elected from the arbitrators, and of the Finance Department.

(14) The executive panel shall function as the general decision-making and management body of the Money and Capital Markets Arbitration Tribunal. The rules governing the appointment and the operation of the executive panel are laid down in the charter document and in the regulations of the Money and Capital Markets Arbitration Tribunal.

(15) The Money and Capital Markets Arbitration Tribunal shall be represented against third parties and before the court and the authorities by members of the executive panel or by persons duly authorized by the executive panel in the manner stipulated in the regulations of the Money and Capital Markets Arbitration Tribunal.

(16) The Money and Capital Markets Arbitration Tribunal shall draw up its own regulations. The procedural rules, which are to contain the provisions concerning costs and charges, shall be published in the Financial Gazette.

(17) The assets of the Money and Capital Markets Arbitration Tribunal may not be diversified and may be used as governed in the charter document solely in connection with conducting and improving arbitration procedures.
(18) The activities of the Money and Capital Markets Arbitration Tribunal shall be limited to functions of arbitration and the related administration; the Tribunal may not engage in economic or business activities.

(19) The Money and Capital Markets Arbitration Tribunal shall invest its liquid assets exclusively in government securities. The only real estate the Money and Capital Markets Arbitration Tribunal may purchase is for its main offices.

(20) The revenues of the Money and Capital Markets Arbitration Tribunal shall not be subject to any corporate and local taxes.

(21) The State Audit Office shall audit the books of the Money and Capital Markets Arbitration Tribunal.

(22) The reporting and accounting obligations of the Money and Capital Markets Arbitration Tribunal shall be laid down in specific other legislation.

(23) The executive panel shall present any motion for the termination of the Money and Capital Markets Arbitration Tribunal to the Minister of Finance twelve months prior to the proposed date of dissolution. With the notice must be attached proof that all of the creditors’ claims have been settled in full and a schedule for the conclusion of pending arbitration matters. The Minister of Finance shall publish notification of the dissolution of the Money and Capital Markets Arbitration Tribunal and the date of dissolution in the Financial Gazette.

PART TWELVE

OVERSIGHT OF CAPITAL MARKETS AND OF THE INSTITUTIONS AND PERSONS PARTICIPATING ON THE CAPITAL MARKETS

Chapter LIII

Rules Concerning the Commission

Responsibilities of the Commission

Section 377.

The scope of authority and the legal status of the State Financial Institutions Commission is defined in another Act.

Section 378.

Within the scope of its responsibilities, the Commission shall
a) evaluate license applications and other petitions;
b) monitor the issuers’ compliance with data and information disclosure requirements;
c) oversee and enforce the regulations and principles laid down in this Act concerning the acquisition of participating interests in public limited companies;
d) regularly monitor the activities of investment service providers, commodities brokers, investment fund managers, the exchange markets and clearing houses and other similar bodies providing clearing or settlement services;
e) oversee and enforce the legal regulation governing investment services, commodity exchange services, investment fund management activities, custodian services, exchange market operations, clearing and settlement operations and central depository services;
f) oversee, analyze and evaluate the business management of investment service providers, commodities brokers, investment fund managers, custodians, the exchange markets and clearing corporations;
g) check the information supply systems of investment service providers, commodities brokers, investment fund managers, custodians, the exchange markets and clearing corporations;
h) apply the measures and sanctions prescribed by law;
i) investigate any alleged cases of insider trading and unfair manipulation of prices;
j) keep the records and registers stipulated by law;
k) cooperate with foreign authorities, particularly with the supervisory authorities of the European Union Member States;
l) resolve any disputes regarding whether an activity is considered an investment service, an auxiliary investment service, or a commodity exchange service under the provisions of this Act.

Financial Resources of the Commission

Section 379.

(1) The Commission's revenues shall consist of:
   a) administration and service charges,
   b) supervision fees,
   c) supervision fines, and
   d) other receipts.
(2) The Commission's receipts from fines must be used for the following purposes only:
   a) training and education of experts for the capital markets;
   b) supporting the preparation and publication of studies relating to supervisory activities;
   c) providing information to investors;
   d) payments to the Fund;
   e) covering losses incurred by the nonprofit company appointed for the liquidation of corporations falling within the scope of this Act.
   (3) In the cases specified in the Act, 80 per cent of the revenue from the regulatory fines imposed by the Commission on investment service providers, clearing corporations and on investment fund managers and commodities brokers with membership in the Fund must be paid into the Fund.
   (4) The Commission may use its revenues only to finance its operating expenses, apart from the expenditures defined in Subsection (2).

Supervision Fee

Section 380.

(1) Investment service providers, individual dealers and agents shall be liable to pay supervision fees, and show it in their books under other operating charges
(2) Investment services provider shall calculate the amount of supervision fee on a quarterly basis comprising the total of the sums defined in Paragraphs a) and b):
   a) 0.04 0/00 of the transaction value of all sales from consignment and trading transactions in a quarter - including forward sales transaction, call and put options sold, and the value of all goods underlying swap transactions or the transaction value of the theoretical value of swap transactions;
   b) 0.01‰ of the daily average (calculated on a quarterly basis) of liabilities to clients outstanding in the current market value of securities and cash, not including those claims for which it pays the supervision fee pursuant to Subsection (2) of Section 382.
   (3) In respect of transactions concluded on an exchange market under consignment or trading activities, the fee shall be fifty per cent of the amount defined in Paragraph a) of Subsection (2).
   (4) The amount of supervision fee payable for a year shall not be less than one million forints.
(5) Individual dealers shall be subject to pay the supervision fee as defined in Subsection (2), in consideration of Subsection (3). The annual supervision fee payable by individual dealers shall not be less than two hundred thousand forints.

(6) The agents referred to in Paragraph a) of Point 103 of Subsection (1) of Section 5 shall be liable to pay one hundred thousand forints annually in supervision fees.

(7) The basis for calculating the supervision fee shall not include the operations conducted with investment instruments (liquidity and risk management operations) between credit institutions, between credit institutions and investment enterprises, between credit institutions and the National Bank of Hungary or between credit institutions or investment enterprises and ÁKK Rt., including transactions with foreign credit institutions and investment enterprises for the said purposes.

(8) An investment service provider established in another Member State of the European Union shall be required to pay fifty per cent of the supervision fee - determined in accordance with Subsections (2)-(6) - for its branch office.

Section 381.

(1) Commodities brokers shall be liable to pay supervision fees, and show it in their books under other operating charges.

(2) Commodities brokers shall pay ten forints supervision fee for each new contract concluded under consignment or trading activities. The annual amount of supervision fee shall be a minimum of one hundred and twenty thousand forints, not to exceed one million two hundred thousand forints.

(3) A commodities broker established in another Member State of the European Union shall be required to pay fifty per cent of the supervision fee - determined in accordance with Subsection (2) - for its branch office.

Section 382.

(1) Institutions providing portfolio management services and investment funds shall be liable to pay supervision fees and show it in their books under other operating costs.

(2) The supervision fee for portfolio management services shall be 0.075‰ of the average quarterly total of the assets managed.

(3) The supervision fee payable by investment funds shall be the mathematical average of the fund's net asset value.

(4) For the funds that have issued two or more series of investment certificates and one of them reinvests the capital gain in a particular series in its entirety, the net asset value per one investment certificate comprising part of a series that is not reinvested shall be multiplied with the total number of investment certificates issued by the fund in question, and the quarterly average of the resulting net asset value shall be used to calculate the amount of supervision fee payable.

(5) The amount of supervision fee payable by investment funds shall be 0.075‰ of the amount calculated under Subsections (3) and (4).

(6) An investment service provider engaged in portfolio management established in another Member State of the European Union shall be required to pay fifty per cent of the supervision fee - determined in accordance with Subsection (2) - for its branch office.

Section 383.

(1) Exchanges shall be liable to pay supervision fees, and show it in their books under other operating charges.

(2) The amount of the fee shall be 0.1 0/00 of the annual balance sheet total.
(3) An exchange market established in another Member State of the European Union shall be required to pay fifty per cent of the supervision fee - determined in accordance with Subsection (2) - for its branch office.

Section 384.

(1) Clearing houses and public limited companies providing clearing and settlement services under Paragraph b) of Subsection (1) of Section 355 shall be liable to pay supervision fees and show it in their books under other operating charges.

(2) The amount of the fee payable by clearing houses shall be 0.00025 of the annual balance sheet total, and for public limited companies providing clearing and settlement services under Paragraph b) of Subsection (1) of Section 335 it shall be 0.0001 of the annual balance sheet total.

(3) In addition to what is contained in Subsections (1) and (2), the corporation providing clearing and settlement services shall pay the supervision fee defined in Subsection (2) of Section 380 on the amount of liabilities in the current value of securities for those clients that are not engaged in securities custodian, securities account management and investment fund management activities.

(4) No supervision fee is to be paid on the liabilities of clearing houses to clients from their central depository activities.

(5) A clearing house established in another Member State of the European Union shall be required to pay fifty per cent of the supervision fee - determined in accordance with Subsections (2)-(3) - for its branch office.

Section 385.

(1) The supervision fee referred to in Subsections (2)-(6) of Section 380, in Subsection (2) of Section 381, and in Subsections (2) and (5) of Section 382 shall be due by the twentieth day of the month following the quarter to which it pertains.

(2) The supervision fee referred to in Subsection (2) of Section 383 and in Subsection (2) of Section 384 shall be due by the thirtieth day of April following the year to which it pertains.

Section 386.

Issuers, persons bidding to acquire a holding in a limited liability company, investment service providers, commodities brokers, investment fund managers, investment funds, the exchange and clearing houses and other similar bodies providing clearing or settlement services shall be liable to pay administration fees and service charges for expert services in accordance with Section 67 of Act XCIII of 1990 on Duties. The types of fees and their amount shall be decreed by the Minister of Finance.

Section 387.

(1) Any default in the payment of supervision fees shall be subject to a default penalty for each delay as of the due date specified by this Act, until payment is remitted in full.

(2) The default penalty shall be levied for each day in default based on the prevailing central bank base rate multiplied by two and divided by three hundred and sixty-five.

Chapter LIV

COMMISSION PROCEDURES

Section 388.
(1) The Commission shall handle the cases under its jurisdiction in accordance with the provisions of the SAPR, with the exceptions set forth in this Act.

(2) The Commission may render its decisions effective immediately, with the exception of fines, if
   a) it is necessitated in order to save investors from sustaining any losses, or to safeguard the overall interests of the capital markets,
   b) further detriment is otherwise expected in the situation of an investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation, on account of which the Commission's intervention is required.

(3) Any document submitted to the Commission for some official procedure shall have a certified Hungarian translation attached.

Section 389.

(1) In authorization procedures, in the case of applications for foundation or operating permits, the Commission shall have a period of sixty days, or thirty days in other cases, within which to adopt a decision. These deadlines may be extended once, by maximum thirty days.

(2) The time limits referred to in Subsection (1) shall not cover any duration of time that is required to contact another authority or a foreign supervisory authority.

(3) The administrative time limit shall commence on the date when the application is submitted in conformity with the provisions of this Act, including any mandatory attachments or when re-submitted so as to supplement any missing information prescribed by the Commission.

(4) The Commission shall publish its resolutions to impose any restriction concerning the exercise of shareholders' rights in the Cégközlöny (Companies Gazette), within eight days.

Section 390.

(1) Upon learning about any unauthorized conduct for the provision of investment services, auxiliary investment services, commodity exchange services, investment fund management services, exchange operations, clearing services and functions, the Commission shall compel the person in question to produce evidence in the form of contracts, written instruments, reports, statements, and/or audit reports to clear up the situation, and may order the inspection of any venue that is suspected of sheltering such activities based on the evidence available.

(2) If it is determined that investment services, auxiliary investment services, commodity exchange services, investment fund management, exchange services or clearing and settlement services are provided without license, the Commission
   a) shall file charges with the competent investigation authority if there is any criminal element involved,
   b) shall adopt a prohibitory injunction concerning the investment services, auxiliary investment services, commodity exchange services, investment fund management, exchange operations, or clearing and settlement services in question, and
   c) shall issue a supervisory resolution or impose a fine if the perpetrator is an institution under its jurisdiction.

Section 390/A.

(1) The Commission shall forward the written notices it receives as pertaining to some entity engaged in activities governed by this Act to the entity involved for further processing.

(2) The above-specified entity shall take proper action to investigate the written report received via the Commission within thirty days, and it shall inform the client and the Commission of the findings of its investigation.

(3) The Commission may request submission of the documents pertaining to the case for the purpose of inspection.
Commission Records and Registers

Section 391.

(1) The Commission shall keep records of the following data and any changes therein:
   a) name and address of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   b) date of foundation of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   c) scope of activities of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   d) amount of subscribed capital of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   e) owner or owners of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services whose acquisition of interest is subject to authorization or the obligation of notification;
   f) the executive employees of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   g) names of sales representatives, business representatives and investment consultants;
   h) date of commencement of operations of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   i) name, address and activities of any companies owned by investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services;
   j) date of foundation of any branch offices of investment service providers, commodities brokers, investment fund managers, investment funds, exchanges and clearing houses and other similar bodies providing clearing or settlement services, and the location of such branch offices;
   k) name, address and branch of the agents of investment service providers, commodities brokers and investment fund managers;
   l) name and address of issuers;
   m) date of foundation of issuers;
   n) amount of subscribed capital of issuers;
   o) name of the executive employees of issuers, their holding in the issuer (including stock options and other rights and guarantees);
   p) name (corporate name), address (commercial domicile) of owners of issuers, and their holding in other companies;
   q) issue particulars;
   r) identification data of insider persons;
   s) particulars of owners of public limited liability companies which they have learned, based on the obligation of notification governed under Section 67 as pertaining to the acquisition of holding.

(2) The Commission shall keep records:
   a) of the data of persons with a close link to any investment firm that is subject to supervision on a consolidated basis or supplementary supervision;
   b) of the data of persons with a close link to any parent company of any investment firm that is subject to supervision on a consolidated basis or supplementary supervision;
c) of those data of the parent company - if it is a mixed-activity holding company or a mixed financial holding company - of an investment firm that are necessary for the supervision of that investment firm.

Data Management of the Commission

Section 392.

(1) The Commission is authorized to manage data in connection with its duties conferred in this Act, including the personal data specified by this Act.

(2) The data managed by the Commission may be used for statistical purposes if the person to whom it pertains cannot be identified.

(3) The Commission may request data of the type of data specified in this Act (Section 395), with the purpose indicated, from other authorities when attending to its duties. Any transfer of data shall be documented by the transferor and by the Commission as well.

Section 393.

(1) The Commission must provide sufficient technical facilities for the protection of the data it manages to ensure against unauthorized access, disclosure by transmission, alteration or erasure by operating a logically closed system.

(2) In order to facilitate the protection of data, the Commission shall

a) permit the data subject, unless otherwise prescribed by law, to access his data managed by the Commission or to exercise his right of alteration or erasure, and

b) take measures for the erasure of data that is no longer required, according to legal regulation, or if ordered by the court.

Section 394.

(1) In order to perform its duties the Commission shall be authorized to keep records of

a) the data of executive officers and employees of investment service providers and commodities brokers, and individual dealers, and of the executive officers and employees of exchange markets and organizations providing clearing or settlement services in order to verify the requirements specified, respectively, in Sections 92-94, Sections 97-99 and Section 356;

b) the data of persons applying for authorization for the acquisition of a holding in an investment enterprise or in an exchange, and of the owners of investment enterprises and the exchange in order to verify the requirements specified, respectively, in Section 106 and Section 308;

c) data of the clients of investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations in connection with any pending procedure it conducts;

d) data of insider persons subject to the obligation of notification;

e) data of persons implicated in or investigated by, the Commission in connection with insider trading or unfair manipulation of prices; and

f) in order to check compliance with regulations on incompatibility the data of

1) the executive employees of issuers of securities which are listed on the stock exchange,

2) the executive employees, sales representatives, business representatives and investment consultants of investment service providers;

3) the owners of investment enterprises, and the executive employees of such owners,

4) the officers and employees of the exchange,

5) the executive officers and employees of clearing corporations,

6) agents,

7) the executive officers and employees of corporations providing investment fund management services,
8) the executive officers and executive employees, custodians, real estate appraisers, and real estate brokers providing services directly to corporations engaged in investment fund management services, and of their employees working in any field that is related to investment fund management;

g) data to control the requirements specified in Sections 97-98 and in Paragraph d) of Subsection (2) of Section 107;

h) the particulars of the owners of public limited companies to control the measure of participating interests acquired.

i) the data of persons with a close link to any investment firm that is subject to supervision on a consolidated basis or supplementary supervision;

j) the data of persons with a close link to any parent company of any investment firm that is subject to supervision on a consolidated basis or supplementary supervision;

k) those data of the parent company - if it is a mixed-activity holding company or a mixed financial holding company - of an investment firm that are necessary for the supervision of that investment firm.

(2) With respect to Subsection (2) of Section 391 and to Subsection (1) of this Section, the Commission shall process the personal identification data of the persons concerned (surname and forename, maiden name where applicable, place and date of birth, mother’s maiden surname and forename, the nationality of foreign persons) and residence address (place of abode), and in respect of data processed for licensing and supervisory purposes, the information concerning investment, acquisition of holding, vocational training, experience, elected office, position, employment, criminal history and the disqualifying factors defined under Section 357.

(3) Identification data of legal persons and unincorporated business associations:

a) name, abbreviated name;

b) address (headquarters and branch offices);

c) number of identification document;

d) name and position of persons authorized to represent the company.

(4) In addition to the identification data referred to in Subsections (2) and (3), the records shall contain the following information as well:

a) in relation to dominant interest, the percentage of the interest and the contract in which such dominant interest is stipulated,

b) in relation to a close link, the extent of the close link and the contract in which it is stipulated,

c) the office of executive employees and their positions, subject of the appointment, type of the legal relationship, credentials as well as all measures taken by the Commission regarding the registered person,

d) contents of the application for the issue or return of the license as well as the data of the document attached for judgment of the application,

e) the annual report of the investment enterprise and the resolution on the allocation of profits,

f) the minutes of the investment enterprise’s general meeting and the meetings of the board of directors and supervisory board,

g) in the case of complaints or public announcements, the personal data of the complaining party, and the event and investment enterprise giving rise to the complaint,

h) documentation of the calculation of the solvency margin and capital adequacy,

i) the data required for controlling large exposures, investment limitations and creation of the general reserve.

(5) The Commission may manage data

a) for five years from the date when the executive officer mandate, supervisory board membership, employment or the exchange officer mandate is terminated,

b) for five years from the date when the agent terminates his activities,

c) for ten years from the date when a holding in an investment enterprise, an exchange or in a clearing corporation is terminated,

d) for ten years from the date of conclusion of a Commission proceeding in connection with insider trading, unfair manipulation of prices or in connection with a client,
e) for five years from the date when participating interests in a public limited company is terminated, and
f) in the cases not mentioned in Paragraphs a)-e), for five years from the date when received.

Notifications and Disclosures

Section 395.

(1) Investment service providers, commodities brokers, investment fund managers and corporations providing clearing or settlement services shall be required to notify the Commission, and - with the exceptions contained in Paragraphs i) and k) - publish at the same time:
   a) on the commencement of an activity for which they are licensed;
   b) the name (corporate name) of their shareholders, and their respective holding or voting share;
   c) any acquisition or disposal of a holding in an associated enterprise [Point 54 of Subsection (1) of Section 5];
   d) any changes in personnel under Subsections (1)-(5) of Section 97, Subsections (1)-(2) of Section 98, and Section 356;
   e) on the conclusion, amendment or termination of contracts with agents;
   f) on the opening and closure of a branch office or representative office;
   g) on calling a general meeting, including the agenda, and the resolutions adopted by the general meeting;
   h) on any plans to suspend services to clients;
   i) on any changes in their corporate data recorded in the company register;
   j) if implicated in a judicial supervisory action; and
   k) on receiving a loan or transacting any deal of the like covering ten per cent or more of the solvency margin in respect of investment enterprises.

(2) In addition to the requirements specified in Subsection (1), branch offices shall be required to notify the Commission, and publish at the same time:
   a) the ownership structure of their founders, and any changes therein over five per cent,
   b) if a founder or any other branch office of such a founder in another state has become insolvent, or is adjudicated in bankruptcy or liquidation proceedings,
   c) if the founder or any of his branch office has been disciplined or penalized by the supervisory authority competent for the place where the founder is established.

(3) Investment service providers, commodities brokers, investment fund managers and clearing corporations shall be required to send their audited annual accounts approved by the general meeting and the auditor’s report to the Commission, and they shall simultaneously publish the audited annual account approved by the general meeting and the auditor’s endorsement.

(4) The obligation of disclosure shall be satisfied
   a) within five days following the date the decision was made under Paragraphs a), e), f), g) and h) of Subsection (1),
   b) by the 15th day of January of the following year in respect of Paragraph b) of Subsection (1),
   c) within five days following the acquisition or disposal of a holding under Paragraph c) of Subsection (1),
   d) within five days prior to the appointment or election, or within five days following the termination of employment or the end of the term under Paragraph d) of Subsection (1),
   e) within five days following the operative date of the resolution of the Court of Registration under Paragraph i) of Subsection (1),
   f) within five days after gaining knowledge under Paragraph j) of Subsection (1),
   g) within two days following the date when the loan is contracted under Paragraph k) of Subsection (1), and
   h) within fifteen days following approval of the annual report under Subsection (3).
(5) The NBH, the Treasury and the ÁKK Rt. shall be subject to disclose the data specified in Paragraphs a), e), f) and h) of Subsection (1).

(6) Investment service providers, commodities brokers, investment fund managers and clearing corporations shall be required to supply information to the Commission concerning their operations and their transactions subject to the form, content and frequency requirements laid down in specific other legislation, and to the NBH.

(7) As part of the oversight and enforcement of the regulations concerning the acquisition of participating interests in public limited companies any person exercising shareholders' rights shall - upon the Commission's written request - present the agreement concluded for the exercise of such rights, and produce copies of all associated documents for the Commission and shall name the person on behalf of whom he acts.

(8) Any investment firm registered in Hungary shall report if its parent company is transformed into a mixed-activity holding company or a mixed financial holding company, or if such relation is altered or terminated.

Chapter LV

SUPERVISORY CONTROL

Section 396.

(1) The Commission shall be entitled to conduct inspections on the site and elsewhere to enforce compliance with the regulations set forth in this Act and in other legal regulations and resolutions regarding the foundation of investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations, authorization of their activities, their operations, consumer protection, and effective and reliable ownership free of any undesirable influence.

(2) At the request of the Commission, issuers, investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations shall furnish to the Commission in the Hungarian language any data, report, statement, and other inspection documents specified in legal regulation to the extent that pertains to their activities; their accounting records, regulations, documents of transactions, the proposals of their executive and supervisory board and the general meeting, including the relevant minutes, internal control reports and records; and the written statements of the auditor, the audit report, and the reports and records of their internal control procedures.

(3) The Commission shall devise an inspection plan and an inspection program adjusted to the risks typical of the activities in question, on the basis of which it will conduct comprehensive inspections at investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations at least every two years. The Commission, in addition to the comprehensive inspection of the investment enterprise, shall at the same time inspect the companies referred to in Subsections (1)-(2) of Section 181/A as well.

(4) The Commission shall be assisted by the NBH in the comprehensive inspection of clearing corporations under Subsection (3) regarding operation reliability and system risks.

(5) In addition to the comprehensive inspections referred to in Subsection (3), the Commission may conduct a direct inquiry at a investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation in connection with a specific problem or, if the same problem surfaces at several investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations, a general inquiry. In the case of investment enterprises, the direct inquiry or the general inquiry shall include the companies referred to in Subsections (1)-(2) of Section 181/A as well.

(6) The Commission shall supervise the production of securities certificates in cooperation with the National Security Agency for compliance with the provisions of specific other legislation governing such production, under the powers and authorizations conferred therein.
The Commission shall routinely inspect whether the requirements prescribed for the acquisition of holding in investment enterprises and in the exchange are satisfied. The owners of investment enterprises and the exchange shall be required to disclose any and all information requested by the Commission for these inspections.

Section 397.

(1) Investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations must enable and assist the Commission to carry out the on-site inspection, ensuring access to the data and information that are required for the inspection.

(2) Investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations must enable and assist the Commission to carry out the on-site inspection, ensuring the inspection of books, reports and records as well as free access to the data and information which are required for the inspection.

(3) The Commission shall have powers to request data on a case-to-case basis and/or to inspect the premises of issuers in order to enforce the provisions of legal regulation pertaining to the offering of securities, and to control the issuers' compliance with the requirement of regular and extraordinary disclosures as prescribed by law and by Commission resolutions, and with the requirement of disclosures to the central depository and to the clearing house.

(4) The Commission may contract the services of an expert, in accordance with its tendering regulations, to carry out inspections. The expert must be registered in the Commission’s register of experts.

(5) The provisions of Subsections (2)-(6) and (8)-(11) of Section 10 and the provisions of Section 11 of the GCFI shall be applied to independent experts. Prior to appointment for the above-specified functions, the Commission must check the auditor’s or the expert’s history for the previous three calendar years in terms of any participating interests or executive office held in a company for compliance with legal requirements. The auditor and the expert must possess the qualifications prescribed for the director of the company that they have been appointed to inspect and must have appropriate liability insurance coverage.

(6) Experts must have sufficient facilities for the safekeeping of documents (duplicates). Auditors and experts may not retain possession of any document or data incidental to the audit following the conclusion of an on-site inspection.

(7) A person holding the Commission's letter of authorization shall be considered an official person concerning the activities to which the letter of authorization pertains.

(8) The fees and costs of an expert the Commission employs under the inspection plan and/or the inspection program shall be borne by the Commission.

(9) By appointment of the Chairman of the Commission, and officer of the Commission shall be entitled to enter the venue where exchange transactions are conducted, to inspect exchange operations and to monitor exchange operations conducted through electronic channels, to take notes, and to request suspension of operations for any brief inspection that may be warranted by suspicion of some irregularity, and to record his findings in a report.

(10) A representative of the Commission shall be permitted to attend the board meeting and general meetings of the exchange or of the clearing corporation.

Section 398.

(1) The Commission - when attending to its duties - may request an investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation to furnish a special report, or a statement in a specific layout and breakdown, or an auditor's report, and shall be entitled to request information from any investment service provider, commodities broker, investment fund manager, exchange or clearing corporation, and from their branches concerning any business transaction, and to review their books, documents and data mediums.
(2) The representative of the Commission may enter the premises in order to conduct the inspection. Such duly authorized person may inspect documents, data media, objects and work processes; request copies of inspected documents and records; request information and statements; and conduct trial purchases.

(3) The Commission, upon request by a foreign supervisory authority, may request specific information to be disclosed and may carry out on-site inspection, or may consent for such actions to be carried out by the requesting foreign supervisory authority or by an auditor or other expert on its behalf under the principle of reciprocity or if there is a valid cooperation agreement with the supervisory authority in question.

Section 398/A.

(1) The Commission shall notify the investment service provider, commodities broker, investment fund manager, the exchange and clearing corporation at least fifteen days in advance of its impending inspection.

(2) The provision contained in Subsection (1) shall not be applied where an advance notice is likely to impair the outcome of the inspection.

(3) The duration of an inspection cannot be more than six months.

(4) The person conducting the inspection must record his findings in writing within sixty days following completion of the inspection.

(5) The Commission shall convey the findings of the inspection in writing to the investment service provider, commodities broker, investment fund manager, the exchange and clearing corporation prior to taking any regulatory measures.

(6) The investment service provider, commodities broker, investment fund manager, the exchange and clearing corporation inspected may comment on the findings in writing within the deadline prescribed by the Commission.

(7) The Commission shall monitor compliance with the instructions contained in its conclusion of the inspection (follow-up audit).

Section 398/B.

(1) The Commission may conduct inspections at the request of the supervisory authority of another Member State of the European Union, and it may give its consent to the supervisory authority requesting consent or to an auditor or to another expert designated by it to conduct the inspections. The competent authority which made the request may, if it so wishes, participate in the inspections insofar as it does not carry out the inspections itself.

(2) The Commission may conduct inspections at the request of the supervisory authority of a third country, and, on the basis of reciprocity or a valid supervision cooperation agreement, it may give its consent to the supervisory authority requesting consent or to an auditor or other expert designated by it to conduct the inspections.

Chapter LVI

COMMISSION PROCEDURES AND ACTIONS, SUPERVISION FINES

Commission Measures and Sanctions

Section 399.

(1) The Commission shall have powers to take measures and to impose sanctions in the case of any violation of the provisions laid down by law, in its resolution, as well as in the bylaws and internal
regulations of the exchange, and in the standard service agreement and internal regulations of clearing
 corporations, and in the case of any conduct to the detriment of investors and other participants of the
capital market, or aimed to upset the balance of the capital market.

(2) The Commission is vested with powers to take measures and to impose sanctions under cooperation
agreement with a foreign supervisory authority for the supervision of companies with entitlement for
trading on the exchange, when initiated by the foreign supervisory authority in connection with any
violation of the provisions laid down in foreign laws, in the supervisory authority's resolutions, as well as
in the bylaws and internal regulations of a foreign exchange, and in the bylaws and internal regulations of
foreign clearing corporations.

(3) The Commission shall assess and weight the data and information available and shall take measures
and/or impose sanctions consistent with the gravity of the violation, breach or negligence in relation
a) to the operation of the institution in question,
b) to the clients of the institution, or
c) to the operation of the capital markets.

Section 400.

(1) The Commission shall have powers to take the following measures and/or to impose the following
sanctions:

a) issue an official demand to issuers and other organizations under its competence for compliance
within the deadline specified with the criteria prescribed by law and/or in internal regulations and/or in the
authorization concerning investment service activities, commodity exchange service activities, investment
fund management activities, custodian services, exchange market operations, and clearing and settlement
activities, central depository operations, and activities associated with the acquisition of holdings in public
limited companies;

b) prohibit the conduct of unauthorized investment services activities, activities auxiliary to investment
services, commodity exchange services activities, investment fund management activities, exchange
operations and clearing and settlement operations;

c) demand reimbursement of the costs and expenses incurred in connection with the activities of an
expert or a regulatory commissioner delegated by the Commission;

d) initiate the dismissal of an executive employee or the auditor of an investment service provider,
commodities broker, investment fund manager, the exchange or a clearing corporation, or initiate
disciplinary action against an employee of such institutions;

e) compel the executive board of an investment service provider, commodities broker, investment fund
manager, the exchange or a clearing corporation to call an extraordinary general meeting, and may specify
the mandatory agenda for such sessions;

f) instruct an investment service provider, commodities broker, investment fund manager, the exchange
or a clearing corporation to draw up a restoration plan within the prescribed deadline, and submit it to the
Commission;

g) order an issuer, investment service provider, commodities broker, investment fund manager, the
exchange or a clearing corporation to disclose specific data or information;

h) order the suspension of all or part of investment services activities, commodity exchange services
activities, investment fund management activities, exchange market operations for a fixed period of time;

i) order the suspension of trading on an exchange section or all trading operations on the exchange for a
specific period of time;

j) revoke the license of an investment service provider, commodities broker, investment fund manager,
an exchange or a clearing house or other similar bodies providing clearing or settlement services;

k) compel an investment service provider, commodities broker or an investment fund manager to
transfer its pending contractual commitments to another service provider;
l) delegate a regulatory commissioner to an investment enterprise, a commodities broker referred to in Paragraph a) of Subsection (2) of Section 89, an investment fund manager, an exchange or a clearing corporation;

m) impose fines in the cases and in the measure prescribed by law;

n) suspend the offering and subscription of securities and the trading of investment instruments, and the procedure in connection with the acquisition of participating interests in a public limited liability company by way of public offer;

o) if a shareholder is banned from exercising his membership rights in a public limited liability company by virtue of law, the Commission shall so stipulate it in a resolution and shall suspend ownership rights if necessary;

p) initiate procedures with other competent authorities;

q) suspend access to client accounts and securities accounts maintained by an investment service provider or a commodities broker.

r) ban, restrict or impose conditions for investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations

1. in their payment of dividends,
2. in any payment made to an executive officer,
3. their owners to raise loans from the said organizations or that these organization provide any services to them that involve any degree of exposure,
4. their providing any loan or credit to, or any similar transaction with, companies in which their owners or executive have any interest,
5. the extension (prolongation) of deadlines specified in loan or credit agreements,
6. their opening of any new branches, introducing new services and new operations;

s) may order investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations

1. to draw up new internal regulations, or to revise or apply the existing along specific guidelines,
2. to provide further training to employees (executives), or to hire employees (executives) with adequate professional experience and expertise,
3. to reduce operating expenses,
4. to set aside adequate reserves;

r) prohibit the exchange from continuing any unlawful activity, order the exchange to draw up new regulations or adopt a new resolution;

u) to remove the sales representative, business representative or investment consultant from the register.

(2) If there is a lawsuit filed for the review of the Commission’s decision defined in Paragraphs h), i), n), o), q), r) and s) of Subsection (1), the court shall rule on the case in an expedited proceeding. The hearing shall be scheduled on or before the eighth day following the date on which charges are filed at the court, if no other action is required.

(3) The Commission may take the measures and impose the sanctions specified under Subsection (1), repeatedly and collectively.

(4) The Commission shall have authority to restrict, for a maximum period of thirty days, the account-holder’s and the proxy’s access to any account operated by a clearing corporation if it is warranted to enhance the sound and prudent functioning of the capital markets and/or for the protection of investors. If justified, the restriction may be extended on one occasion by thirty additional days.

(5) The Commission may restrict access to an account if

a) the offering of the securities contained therein took place in violation of law, and there is reasonable cause to retain such securities on the account in order to prevent any injury to third parties;

b) based on the information available there is evidence to suggest that the account is linked to criminal activities;

c) trading on the exchange or on over-the-counter markets has been suspended by the competent person;

d) the business situation of an investment service provider or a commodities broker has taken a turn whereby it is no longer possible to maintain the safety of operations; or
e) the quantity of securities recorded on the securities account fails to coincide in the aggregate with the quantity of dematerialized securities issued.

(6) The measures taken by the Commission under Subsection (4) shall not effect the exchange transactions concluded beforehand.

(7) The Commission may prohibit the outsourcing of an activity if it does not comply with the provisions of Section 160.

(8) The Commission may impose the measure contained in Point 1 of Paragraph r) of Subsection (1) if payment of dividend is likely to jeopardize the capital adequacy of the investment service provider, commodities broker, investment fund manager, the exchange and clearing corporation in question.

(9) Upon taking the measures specified in Paragraph q) of Subsection (1), the Commission shall forthwith notify the supervisory authorities of the Member States in which the investment service provider affected by the measure operates a branch office or provides cross-border services.

Regulatory Commissioner

Section 401.

(1) The Commission may appoint one or more, regulatory commissioners to oversee the activities of an investment enterprise, commodities broker, investment fund manager or a clearing corporation, particularly if
   a) it is in a situation where there is imminent danger that it cannot meet its liabilities;
   b) its board of directors or any executive employee is unable to carry out his assigned duties, hence to jeopardize the interests of investors;
   c) any discrepancies in its accounting system or internal control regime are of a magnitude whereby it is no longer possible to receive a true and fair view of its financial position.
(2) The situation referred to in Paragraph b) of Subsection (1) shall prevail, among other reasons, if
   a) the owners or the founder of the branch office fail to increase the equity capital of the investment enterprise, commodities broker, investment fund manager, or clearing corporation as prescribed;
   b) the board of directors fails to call a general meeting when it is ordered by the Commission.
(3) The Commission may appoint a regulatory commissioner to an exchange, if it does not have the internal regulations defined under Paragraphs a)-d) and h) of Subsection (4) of Section 317, or if the board of directors is not elected or the managing director is not appointed within thirty days. The duties and powers of the regulatory commissioner shall be laid down in the resolution on his appointment.
(4) The regulatory commissioner shall convey his report to the Commission within ninety days in which to outline the situation of the corporation in question, including any recommendations for further action. This time limit may be extended on one occasion, if justified, by maximum thirty additional days.
(5) Based on the regulatory commissioner's recommendations the Commission shall decide within thirty days on any further measures.

Section 402.

(1) Until the resolution ordering the appointment of a regulatory commissioner is delivered by service of process, the liability of board members of the investment enterprise, commodities broker, investment fund manager, or clearing corporation concerned shall remain in effect as defined by legal provisions on business associations.
(2) If prevented from taking matters over, the regulatory commissioner may request the assistance of a notary public or the police.
(3) During the mandate of a regulatory commissioner, the executive employees of the corporation in question shall not be permitted to carry on their duties stipulated in the Companies Act, in this Act and in the corporation's bylaws, nor to exercise their right of procuration. Under his official mandate the
regulatory commissioner shall exercise the rights of executive employee conferred by law and in the bylaws.

(4) The regulatory commissioner shall be responsible
   a) to assess the financial situation of the investment enterprise, commodities broker, investment fund manager or clearing corporation concerned;
   b) to analyze any potential to satisfy the claims of clients;
   c) to restore the records of the investment enterprise, the commodities broker, the investment fund manager or the clearing corporation to the extent necessary for the actions defined in Paragraphs a) and b);
   d) to operate the investment enterprise, the commodities broker, the investment fund manager or the clearing corporation as a company to the extent necessary.

(5) The Commission may confer additional duties upon the regulatory commissioner.

Section 403.

(1) The regulatory commissioner may be held liable for any damage caused in his official capacity only to the Commission, and shall not be subject to any claims for damages directly. If the regulatory commissioner is in the employ of the Commission as a public officer, he shall be held accountable according to the provisions of the Public Officials Act on damage liability, or according to Section 350 of the Civil Code in other cases.

(2) The name and address of the regulatory commissioner shall be reported to the Court of Registration for registration and publication purposes. The Commission's address may be indicated in place of the address of the regulatory commissioner.

Supervision of the Branch Offices of Institutions Established in Other Member States of the European Union

Section 404.

(1) If the branch office of an investment service provider, commodities broker, investment fund manager, exchange or clearing house that is established in another Member State of the European Union violates any Hungarian provisions, or if the Commission finds any discrepancy in the operation of the branch office, the Commission shall advise the branch office in question to remedy the situation.

(2) If the branch office fails to comply with the advice, the Commission shall notify the competent supervisory authority of the Member State concerning the unlawful situation, or shall request the competent supervisory authority to take the actions required.

(3) The Commission may take action of its own accord regarding any violation of Hungarian provisions or if it deems that the unlawful situation poses a substantial threat to the stability of the capital market or to the interests of the clients. The Commission shall inform the European Commission and the competent supervisory authorities of the Member States concerned. The European Commission shall review the Commission’s measures implemented in connection with any violation of prudential requirements and subsequently determine their legality.

Supervision Fines

Section 405.

(1) Issuers, persons violating the regulations on the acquisition of a major holding in public limited companies, investment service providers, commodities brokers, investment fund managers, the exchange, clearing corporations and their executive officers and other employees, or persons engaged in insider trading and/or unfair manipulation of market prices shall be subject to a fine imposed by the Commission for any violation, evasion, non-fulfillment or late fulfillment of the obligations set out in this Act and in
legal regulations enacted under its authorization, in the Act on Money laundering, in the resolution of the Commission and in its own internal regulations, as well as if the penalty is proposed by the NBH according to Subsection (2) of this Section or by a foreign supervisory authority under Subsection (2) of Section 399.

(2) The NBH may request that a fine is levied for any violation of the NBH Act, the provisions of legal regulations on financial transactions by an investment service provider, commodities broker, investment fund manager, an exchange or a clearing corporation.

(3) No fine may be imposed if the alleged perpetrator is able to produce evidence of having taken all reasonable precautions under the given circumstances.

(4) No fine shall be levied in connection with a breach of duty or negligence past two years from the time when the Commission gained knowledge of the act, or past three years (five years in the case of insider trading) from the time it was committed.

**Amount of the Fine**

*Section 406.*

(1) The amount of a fine shall be determined according to the gravity of non-compliance with the requirements laid down in this Act, in specific other legislation and/or in Commission resolutions, or to the weight of negligence and the financial advantage received.

(2) The amount of the fine shall be:

a) between 2,000,000 and 10,000,000 forints for the provision of investment services and investment fund management services without authorization;

b) between 200,000 and 4,000,000 forints for any deviation from or non-compliance with, the requirements stipulated in the authorization for investment services activities and investment fund management activities;

c) between 200,000 and 10,000,000 forints for any violation of operating regulations or the provisions of Section 222;

d) in the case of insider trading, one hundred and fifty per cent of the financial advantage received;

e) between 100,000 and 10,000,000 forints in connection with unfair manipulation of market prices;

f) between 200,000 and 10,000,000 forints for any violation of the legal regulations referred to in Subsection (2) of Section 405;

g) between 200,000 and 10,000,000 forints for any breach of, negligence or partial compliance with the obligations relating to public offerings and prospectuses;

h) between 100,000 and 6,000,000 forints for any failure to comply, or late or insufficient compliance with regular and extraordinary disclosure requirements;

i) between 1,000,000 and 20,000,000 forints for any failure to comply, or late or insufficient compliance with extraordinary disclosure requirements, if it pertains to insider trading;

j) between 100,000 and 1,000,000 forints for any breach of, negligence or partial compliance with the obligations relating to private offering;

k) in connection with any violation of the provisions governing international securities trading, between 10 to 100 per cent of the current market value of the securities involved, or between 1,000,000 and 20,000,000 forints if this value cannot be established;

l) between 200,000 and 2,000,000 forints for any breach of, negligence or partial compliance with the obligation of notification of insider persons;

m) between HUF 500,000 and 100,000,000 for any violation of the regulations on the acquisition of a major holding in a public limited company as defined in this Act;

n) between 2,000,000 and 20,000,000 forints for any involvement in unauthorized exchange market operations or clearing and settlement activities;

o) between 100,000 and 10,000,000 forints for any deviation from or non-compliance with the requirements stipulated in the authorization of exchange market operations;
p) between 200,000 and 10,000,000 forints for any violation of exchange market operating regulations;
q) between 200,000 and 10,000,000 forints for any violation of provisions governing investment fund management activities;
r) between 200,000 and 4,000,000 forints for any violation of provisions governing custodian services;
s) between HUF 100,000 and HUF 500,000 for any violation of the obligations set out in the Act on the Prevention of Money Laundering;
t) between 100,000 and 10,000,000 forints for any violation of the provisions on clearing and settlement services.

(3) The fine for any violation of, negligence or late compliance with regulations not mentioned in Subsection (2) shall be between 50,000 and 5,000,000 forints.

(4) The amount of fine to be levied on an executive officer or employee of an issuer, investment service provider, commodities broker, investment fund manager, an exchange or a clearing corporation under Subsections (2) and (3) shall be between 50,000-5,000,000 forints.

PART THIRTEEN

Chapter LVII

TRANSITIONAL AND CLOSING PROVISIONS

Entry into Force

Section 407.

(1) This Act, with the exceptions set forth in Subsections (3) and (4), shall enter into force on 1 January 2002. Its provisions shall apply to pending cases if they comprise more favorable regulations for the client. For the definition of ‘client’ the provisions of the SAPR shall apply.

(2) For the purposes of authorization procedures, it shall be deemed pending when the application for authorization was submitted before the date of entry into force in compliance with the form and content requirements set out in Act CXI of 1996, Act LXIII of 1991 and/or Act XXXIX of 1994.

(3) Section 59, Subsection (4) of Section 62, Section 64, Subsection (5) of Section 85, Subsection (9) of Section 90, Subsection (5) of Section 91, Subsection (5) of Section 92, Section 94, Sections 102-105, Section 211, Section 218, Section 231, Section 232, Subsection (3) of Section 284, Sections 287 and 288, Section 302, Subsection (3) of Section 313 and Section 404 of this Act shall enter into force simultaneously with the act promulgating the treaty on Hungary’s accession to the European Union.

(4) Section 435 of this Act shall enter into force on 1 January 2003.

(5) The provisions of the Commodities Act, the IFA and the SecA shall apply if the reason upon which the supervisory action was imposed took place before the entry of this Act into force.

Transitional Provisions

Section 408.

(1) All certificated securities that are placed into public circulation prior to the date of entry into force, or that are offered under Subsection (2), must be converted into dematerialized securities by 31 December 2004.

(2) The provisions laid down in Subsection (3) of Section 6 shall not apply until 31 December 2002 in respect of any certificated securities that the issuer decided to offer to the public prior to the date of entry into force, or for the issue of securities of the same series as registered securities already in issue.

(3) By way of derogation from the provisions of Subsection (2), concerning continuous issues of securities, if the issuer began to offer them by 31 December 2002 and if the securities are set to mature by
31 December 2004, the provision contained in Subsection (3) of Section 6 need not be applied until 31 December 2004.

Section 409.

Issuers shall be required to prepare the half-yearly flash report referred to in Subsection (1) of Section 52 commencing in 2003.

Section 410.

Section 411.

(1) If, at the time of this Act entering into force, the bylaws of a public limited liability company fails to conform with the requirements laid down in this Act concerning the acquisition of holding in limited liability companies, such bylaws must be revised and amended by the first general meeting subsequent to the entry into force of this Act, with the exceptions set forth in Subsection (2) of this Section and in Subsection (6) of Section 82 of Act L of 2001 on the Amendments of Financial Regulations.

(2) If the bylaws of a public limited liability company deviate at the time of this Act entering into force from the provisions of Part Three of this Act regarding the threshold limit of mandatory purchase offers and the minimum criteria concerning the price quoted in a purchase offer, the limited liability company in question must repeal these clauses of the bylaws by 30 June 2004, or must amend them to achieve compliance with the respective provisions of this Act.

Section 412.

(1) The equity capital of securities intermediaries and securities traders established before the entry into force of this Act, or that were licensed subsequently under Subsection (2) of Section 407 according to the regulations contained in the Securities Act shall be brought to conformity by 31 December 2003 with the minimum amount of subscribed capital prescribed under Subsection (3) of Section 90, as a requirement for licensing.

(2) All members of the commodities exchange, whether admitted prior to this Act entering into force under the Commodity Exchange Act or subsequently under Subsection (2) of Section 407 in accordance with the regulations of the Commodity Exchange Act, must satisfy the equity capital requirements and the requirements pertaining to organizational structure, operations and activities by 31 December 2003.

(3) The investment service providers established before the entry into force of this Act or those that were licensed subsequently under Subsection (2) of Section 407 must satisfy the requirements pertaining to organizational structure, operations and activities by 31 December 2002.

(4) The persons referred to in Points 116-118 of Subsection (1) of Section 5 shall pass the examination prescribed in specific other legislation and present the certificate to the Commission by 30 June 2007.

Section 413.

Any financial institution, investment enterprise, investment fund manager and insurance institution that manages the assets of private pension funds, and the amount managed at the time of this Act entering into force is two billion forints or more, must satisfy the respective equity capital requirements specified in Subsection (4) of Section 90 and in Subsection (4) of Section 235 of this Act, in Subsection (5) of Section 9 of the CIFE as amended by Section 437 of this Act, and in Subsection (5) of Section 46 of the Insurance Act as established by Section 442 of this Act, by 31 December 2003.

Section 414.
The directors of the internal control department (internal controller) of investment enterprises and commodities brokers established prior to or whose authorization is pending at the date of entry of this Act into force, must satisfy the qualification requirements prescribed in Subsection (7) of Section 110 by 31 December 2003.

Section 415.

1) The maximum amount of compensation referred to in Subsection (2) of Section 217 shall be one million forints until 31 December 2004 and two million forints between 1 January 2005 and 31 December 2007. The starting day of the liquidation proceedings is to be taken into consideration when determining the maximum amount of compensation.

2) Between the period commencing on the operative date of the act promulgating the treaty on Hungary’s accession to the European Union and ending on 31 December 2007
   a) Any branch office established by an organization engaged in insured activities domiciled in Hungary in another Member State of the European Union must join the investor protection scheme of the country in which it is located;
   b) The amount of coverage afforded by the investor protection scheme in respect of the Hungarian branch offices of organizations engaged in insured activities that are established in other Member States of the European Union shall not exceed twenty thousand euros per person and per investment service provider.

3) Section 215 of this Act shall not apply to any claims originating from the preceding period.

4) The compensation proceedings of the Investor Protection Fund pending at the time of this Act entering into force shall be governed by the legal regulations in force at the time when the claims to which the compensation pertains were frozen.

5) Any payment of membership fees made in 2001 shall be applied as advance payment of membership fees for 2002 to the extent applicable for 2002.

6)

Section 416.

1) The equity capital of investment fund managers established before the entry into force of this Act shall be brought to conformity by 31 December 2003 with the minimum amount of subscribed capital prescribed under Subsections (3) and (4) of Section 235 as a requirement for licensing.

2) The investment fund managers and other institutions providing portfolio management services that were established before the entry into force of this Act must satisfy the requirements pertaining to organizational structure, operations, activities and incompatibility by 31 December 2002.

3) The persons referred to in Points 1-4 of Schedule No. 11 of this Act shall pass the examination prescribed in specific other legislation and present the certificate to the Commission by 30 June 2007.

Section 417.

1) Any exchange market that was established prior to 31 December 2001 under the Securities Act or the Commodity Exchange Act shall be required to be reorganized by 31 December 2003 in order to comply with the regulations laid down in this Act.

2) The Commission shall revoke its approval of the bylaws and internal regulations of any exchange that did not reorganize by 31 December 2003, whereby such exchange shall no longer be able to engage in exchange market operations.

3) The transformation of exchanges shall be governed by the provisions of the Companies Act pertaining to the foundation of limited liability companies, subject to the exceptions specified in this Act.
(4) Concerning the operations and the supervision of exchanges established prior to 31 December 2001 under the Securities Act or the Commodity Exchange Act the provisions in force on 31 December 2001 shall apply until they are reorganized, however,
   a) Section 313 may be applied as of the entry of this Act into force, irrespective of the date of transformation,
   b) by way of derogation from Paragraph b) of Section 29 of the Commodity Exchange Act, the exchange shall terminate if the number of its members remains below fifteen over a period of more than six months.
(5) Following the entry of this Act into force an exchange may only be established under the provisions of this Act.

Section 418.

(1) A tax exemption of an exchange that operates under this Act with respect to corporate tax and local business tax shall end in the tax year, the last day of which is in 2006.
(2)

Section 419.

(1) The clearing houses established before the entry into force of this Act, or that were licensed subsequently under Subsection (2) of Section 407, must satisfy the provisions of this Act by 31 December 2003.
(2) The Commission shall revoke the operating permit of any clearing house that fails to comply with the requirement specified in Subsection (1) by 31 December 2003.
(3) The clearing house that was compelled to provide central depository services under the Securities Act shall continue to provide such services under the original conditions.
(4) Any clearing house that was established prior to the entry of this Act into force, that was transformed in order to operate as a specialized credit institution shall not be subject to the provisions of the CIFE pertaining to foundation, to the issue of foundation permits, and to the licensing of activities that are already licensed.
(5) Clearing corporations shall be required to amend the contracts that exist at the time this Act enters into force by 31 December 2003 as consistent with Subsection (1) of Section 337.
(6) The Real Time Gross Settlement System (VIBER) of the National Bank of Hungary, the Interbank Clearing System (BKR) of the GIRO Elszámolásforgalmi Részvénytársaság and the Securities and Futures Settlement System (KELÉR) of the Központi Elszámolóház és Értéktár (Budapest) Rt. shall be recognized as a payment and settlement system under Subsection (6) of Section 38 of the Bankruptcy Act.
(7) Paragraphs a)-e) of Subsection (3) of Section 450 of this Act shall apply to the validity of certificates of deposit, treasury bills and bonds issued prior to the date of entry into force or offered according to Subsection (2) of Section 408.

Section 420.

(1) The term of the Commission’s chairperson and deputy chairpersons elected and appointed prior to the entry of this Act into force shall terminate on the date indicated on the election or appointment papers.
(2) The Commission shall be required to introduce the electronic supervisory public information system specified in Section 10/A of Act CXXIV of 1999 on Government Control of Financial Institutions (hereinafter referred to as ‘GCFI’) by 31 December 2002.

Section 421.
The Exchange Arbitration Tribunal established before the entry into force of this Act shall be required to amend its charter document by 30 June 2002 in accordance with this Act.

Section 422.

The internal controller of a financial institution that was established prior to or whose authorization is pending on the date this Act enters into force - if internal control is handled by one person only - shall be required to satisfy the conditions specified in Subsection (9) of Section 67 of the CIFE, as amended by Section 437 of this Act, by 31 December 2004.

Section 423.

The NBH shall oversee the activities auxiliary to financial services specified under Paragraph a) of Subsection (2) of Section 3 of the CIFE until 31 December 2002.

 Regulations Concerning the Transformation of Exchange Markets

Section 424.

(1) The exchange must operate in the form of a limited liability company.
(2) The limited liability company created by way of transformation of an exchange must be formed privately.
(3) The limited liability company created upon transformation shall commence operations on the following day when it registered in the Register of Companies.
(4) The transformation of an exchange into a limited liability company shall be exempt from the payment of any duties.

Section 425.

(1) The general meeting of the exchange shall have exclusive jurisdiction to resolve the issues governed in this Act relating to its transformation into a limited liability company. The issues relating to transformation shall be adopted by three-quarter majority ballot, with the exception specified in Subsection (2).
(2) Where a ballot of the general meeting has failed to adopt certain transformation-related issues, such issues - in contrast with Subsection (1) - shall be adopted by simple majority following 1 January 2003.
(3) The transformation of an exchange shall require two resolutions, one at the preliminary meeting and another at the general meeting on transformation.

Section 426.

(1) The first agenda of the preliminary session is to determine whether the members of the exchange agree with the board of directors' motion for transformation.
(2) If the preliminary meeting agrees with the transformation, the board of directors shall prepare, for the accounting date specified by the general meeting,
   a) a draft statement of holdings and a draft inventory of assets of the predecessor exchange,
   b) a draft statement of holdings and a draft inventory of assets of the successor limited liability company, and
   c) a draft of the charter document.
(3) If the preliminary meeting has consented to the transformation, it shall then be authorized by the Commission also.
(4) The Commission shall not authorize the transformation if the decision therefor or the decision-making process violates any legal provision or any regulation of the bylaws of the exchange. When authorization is refused, the Commission shall instruct the exchange to call another preliminary meeting. The general meeting on transformation cannot convene until the Commission has authorized the transformation.

Section 427.

(1) The wealth of the exchange must not decrease during the transformation process.

(2) If the preliminary meeting has consented to the transformation, the shareholders shall only have the option to have their respective shares credited on securities accounts.

Section 428.

(1) The draft statement of holdings shall be prepared by the methods and in the layout of the balance sheet of the annual accounts of exchanges as provided by the accounting regulations pertaining to exchanges. In place of a draft statement of holdings the balance sheet prepared for the annual account of the exchanges in accordance with accounting regulations shall also be accepted if the accounting date of the balance sheet precedes the decision of the general meeting concerning transformation by no more than six months.

(2) The exchange may revaluate the assets and liabilities shown in its balance sheet prepared in accordance with accounting regulations.

(3) The detailed regulations on the preparation of draft statements of holdings and draft inventories of assets and on revaluation, and on the proposed equity capital and subscribed capital of the successor business association are contained in the Companies Act and in the Accounting Act.

(4) The draft statement of holdings and the draft inventory of assets shall be examined by an auditor, other than the auditor of the exchange, and by the supervisory board. The auditor who has examined the draft statement of holdings of the transformation cannot be appointed as the auditor of the successor limited liability company for a period of three years after it is registered. The value of the assets of the business association and the amount of its equity may not be established at a value which is higher than the value determined by the auditor.

Section 429.

(1) On the basis of data from the draft statement of holdings and in accordance with the regulations contained in the bylaws and the proposal of the board of directors, the percentage held by each shareholder in the proposed subscribed capital of the successor limited liability company shall be specified.

(2) The shareholders of the successor limited liability company shall indicate in their books the value of their investment in the terminated exchange under extraordinary charges, and shall record the value of shares received under extraordinary income.

(3) The reorganization of an exchange operator into a limited company shall be treated as a preferential transformation within the meaning of the Act on Corporate Tax and Dividend Tax.

Section 430.

(1) The provisions concerning the ratio of contributions in cash and in kind shall not apply when determining the limited liability company's share capital.
(2) For the application of Subsection (1), those assets which, based on the value of the equity capital prorated against the balance sheet total, will constitute the subscribed capital of the successor limited liability company shall be shown separately in the draft inventory of assets.

(3) The final statement of holdings shall be prepared in accordance with the Companies Act and with the Accounting Act as of the date when the transformation is registered in the Register of Companies.

Section 431.

1) The exchange shall provide for the publication of an announcement on the decision adopted by its general meeting on its transformation in the Cégközlöny [Companies Gazette] and in a daily news medium published by the Commission, or one that is recognized and approved by the Commission, used for the publication of information received from actors of the capital markets, within eight days. The announcement shall be published in two consecutive issues of the said mediums and shall also be published by way of the means specified under Paragraph b) of Subsection (5) of Section 37.

2) The announcement shall contain:
   a) the name and corporate domicile of the predecessor exchange;
   b) the name and corporate domicile of the successor limited liability company;
   c) the date of approval of the charter document;
   d) essential information from the draft statement of holdings, in particular the amount of equity and subscribed capital, showing separately the share of contributions in cash and in kind;
   e) the type and class of shares and their nominal value;
   f) the name and address of the executive officers of the successor limited liability company;
   g) notice to the creditors.

3) Transformation shall not result in the expiration of claims outstanding against the predecessor exchange.

Section 432.

1) The limited liability company established by transformation of the exchange shall be its legal successor. The rights and obligations of the predecessor exchange shall devolve upon the successor limited liability company.

2) Any exchange that is established by way of transformation in accordance with the provisions of this Act shall not be subject to the regulations pertaining to the authorization requirements concerning the foundation and operations of exchanges.

Section 433.

Within the framework of Section 3 of Act I of 1994 promulgating the Europe Agreement establishing an association between the Republic of Hungary and the European Communities and their Member States, signed in Brussels on 16 December 1991, this Act contains regulations that may be approximated with the legal regulations of the European Communities listed under Schedule No. 25.

Amendments

Section 434.
Section 435.

Section 436.

Section 437.
Section 438.

Section 439.

Section 440.

Section 441.

Section 442.

Section 443.

Section 444.
Section 445.

Section 446.

Section 447.

Section 448.

Section 449.

Any reference made to Act CXI of 1996 or the Securities Act, to Act XXXIX of 1994 or the Commodity Exchange Act, or to Act LXIII of 1991 or the IFA in any legal regulation enacted prior to this Act shall be understood as this Act.

Repeals

Section 450.

(1) Simultaneously upon the entry of this Act into force the following shall be repealed:
   a) Act CXI of 1996 on Securities Trading, Investment Services and the Stock Exchange, with the exception of Section 235, Section 238 and Section 241;
   c) Act XXXIX of 1994 on the Commodities Exchange and Commodities Exchange Transactions;
   d) Act LXIII of 1991 on Investment Funds;
(2) Simultaneously upon the entry of this Act into force the following shall be repealed:
   a) Section 310, Section 318 and Subsections (1) and (3) of Section 319 of Act CXLIV of 1997 on Business Associations;
   b) the passage "with the involvement of the Private Fund Council" in Subsection (7) of Section 63, and Paragraph d) of Subsection (4) of Section 67, Subsection (1) of Section 70, Section 121, Section 126 and Section 129 of Act LXXXII of 1997 on Private Pensions and Private Pension Funds;
   c) Section 105 of Act XC of 1998 on the 1999 Budget of the Republic of Hungary;
   d) Section 52 of Act LXXV of 1999 on Organized Crime, the Provisions for Actions Against Phenomena Associated with Such, and on the Related Amendments of Laws;
e) Section 119 of Act XCVIII of 2000 on the Amendment of Act XCVI of 1995 on Insurance Institutions and the Insurance Business;

f) Subsection (2) of Section 141 and Section 155 of Act CXXIV of 2000 on the Amendment of Act CXII of 1996 on Credit Institutions and Financial Enterprises;

g) Paragraph a) of Subection (2) of Section 51 of Act CXXXVIII of 2000 on the Amendment of Act LVII of 1996 on the Prohibition of Unfair Market Practices and Restraint of Trade;

h) Section 98 of Act CXXXIII of 2000 on the 2001-2002 Budget of the Republic of Hungary;

i) Section 31 of Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds;

j) Subsection (5) of Section 33 and Subsection (1) of Section 43 of Act XXXIV of 1998 on Venture Capital Investments, Venture Capital Enterprises and Venture Capital Funds;

k) Paragraph d) of Part 2/B. Formation of closed corporations of the Schedule to Act CXLV of 1997 on the Register of Companies, Public Company Information and Court Registration Proceedings under the title Appendices to be attached for company registration and for verification of the data in the company register;

l) Paragraph d) of Subsection (1) of Section 97 of Act CXXIV of 1996 on the 1997 Budget of the Republic of Hungary;

m) Paragraphs e) and f) of Section 3 and Subsection (5) of Section 4 of Act CXXIV of 1999 on Government Control of Financial Institutions;

n) Paragraph e) of Subsection (2) of Section 2, the passage "in accordance with foreign exchange regulations" in Subsection (3) of Section 3/A, the passage "foreign exchange regulations" in Subsections (1) and (2) of Section 151; and the passage "foreign exchange regulations" in Section 176 of Act CXII of 1996 on Credit Institutions and Financial Enterprises;

o) Subsections (3) and (4) of Section 2 of Act CLVIII of 1997 on the Amendment of Act CXII of 1996 on Credit Institutions and Financial Enterprises;

p) q) Sections 34-45 and Subsections (4) and (5) of Section 82 of Act L of 2001 on the Amendments of Financial Regulations;

r) Subsection (1) of Section 3 of Act CXXXVII of 2000 on the Amendment of Legal Provisions on Liens.

(3) Simultaneously upon the entry of this Act into force the following shall be repealed:
a) Law-Decree 18 of 1988 on Certificates of Deposit;
b) Law-Decree 23 of 1987 on Treasury Bills;
c) Law-Decree 28 of 1982 on Bonds;
d) Law-Decree 22 of 1987 on the Amendment of Law-Decree 28 of 1982 on Bonds;
f) Decree No. 3/1995 (III. 1.) PM on the Fees of Commodity Exchange Supervisory Services.

(4) Subsection (7) of Section 235 of this Act shall be repealed simultaneously with the act promulgating the treaty on Hungary's accession to the European Union entering into force.

**Authorizations**

**Section 451.**

(1) The Government is hereby authorized to decree the following:
a) the necessary personnel, equipment and security facilities required for the provision of investment services and commodity exchange services;
b) the necessary personnel, equipment and security facilities required for the provision of securities custodian and securities safe-keeping services;
c) the necessary personnel, equipment and security facilities required for the provision of clearing and settlement services;
d) the content requirements for securities and the conditions for their issue;

e) the security requirements concerning the production of printed certificates of securities, their
handling and physical destruction, and the Commission's obligation for cooperation relating to the above;

f) the regulations concerning the creation and transfer of dematerialized securities, and the related
security requirements;

g) the detailed regulations concerning the opening, operation and administration of securities accounts,
central securities accounts, exchange cash accounts, safe custody accounts and client accounts, and the
operation of the accounts system, including the regulations on the individual administration of the
accounts and on the right of disposition over such accounts;

h) the content requirements for the standard service agreements of economic organizations providing
investment services;

i) the detailed regulations on trading books;

j) the rules for determining the capital required to cover positions, commitments, foreign exchange risks
and large exposures recorded in the trading book;

k) the regulations concerning the risk management system employed relative to interest-rate risks;

l) the detailed regulations on individual portfolio management activities; and

m) the detailed regulations on the calculation of return on securities, and on the publication of such
return.

(2) The Minister of Finance is hereby authorized to decree the following:

a) the regulations concerning ISIN codes;

b) the type of data to be supplied to the Commission by exchanges and clearing houses and other similar
bodies providing clearing or settlement services, and the manner and frequency of such disclosures;

c) the mandatory information to be supplied by exchanges, clearing houses and other similar bodies
providing clearing or settlement services and by investment service providers, and the manner and
frequency of such disclosures;

d) the fees payable for supervisory proceedings and administrative services;

e) the examination requirements for securities broker/dealers and the procedure of such examinations;

f) classification and evaluation criteria for outstanding receivables, investments, off-balance sheet items
and reserves;

g) the detailed regulations concerning the development and operation of the internal control regime;

h) the rules concerning the capital requirement for country risks;

i) the rules for the calculation of the capital adequacy index relating to reserves for covering risks in
connection with assets and off-balance sheet items which are recorded by means other than the trading
book;

j) requirements concerning investment loans and other credits under deferred payment arrangements;

k) the rules regarding the provisions to be set aside by institutions providing clearing or settlement
services, other than clearing houses, and the measure of such provisions;

l) the data disclosure obligation of economic organizations engaged in investment services,
commodities brokers and investment fund managers, the type of data to be supplied concerning the
business operations of such organizations to the Commission, and the manner and frequency in which to
supply such data;

m) the layout and contents of the supplementary reports to be filed by auditors to the Commission once a
year.

o) the calculations at the level of the financial conglomerate relating to supplementary supervision, their
contents, structure and frequency.

Schedule No. 1 to Act CXX of 2001

Abbreviations of legal regulations referred to in this Act
1) SAPR: Act IV of 1957 on the General Rules of State Administration Procedures;
2) Commodities Act: Act XXXIX of 1994 on the Commodities Exchange and Commodities Exchange Transactions;
3) IFA: Act LXIII of 1991 on Investment Funds;
5) Bankruptcy Act: Act IL of 1991 on Bankruptcy Proceedings, Liquidation Proceedings and Members' Voluntary Dissolution;
7) FCA: Act CXXXII of 1997 on Hungarian Branch Offices and Commercial Representative Offices of Foreign-Registered Companies:
8) Companies Act: Act CXLIV of 1997 on Business Associations;
9) CIFE: Act CXII of 1996 on Credit Institutions and Financial Enterprises;
10) NBH Act: Act LVIII of 2001 on the National Bank of Hungary;
12) Accounting Act: Act C of 2000 on Accounting;
14) JEA: Act LIII of 1994 on Judicial Execution;

Schedule No. 2 to Act CXX of 2001

Content requirements of prospectuses and public announcements relating to the public offering of government securities

1. All prospectuses prepared for the public offering of government securities must contain the following items:
   1) name of the issuer,
   2) purpose of issue, reference to the authorization for issue or the decision for offering,
   3) class and type of the securities, description of the rights attached to them,
   4) formula for determining the price and yield of the securities,
   5) any restrictions concerning negotiability,
   6) type of offering, and the rules pertaining to the type of offering in question,
   7) allocation information,
   8) rules on the disclosure of information concerning the outcome of the subscription procedure,
   9) payment terms and conditions, bank account number for making payments,
   10) rules on the payment of interest and redemption (amortization),
   11) name and address of the broker/dealer involved.

2. All public announcements prepared for the public offering of government securities must contain the following items:
   1) name of the issuer,
   2) purpose of issue, reference to the authorization for issue or the decision for offering,
   3) class, type and series of the securities, the securities code,
   4) quantity planned to be issued, face value of the securities,
   5) issue price of the securities, or the date and place when and where it will be published,
   6) opening and closing date of subscription,
   7) deadline of financial settlement,
   8) interest rate, formula for calculating the interest,
   9) date of payment of interest and redemption (amortization),
   10) information on transfer restrictions, if any,
   11) date of publication of the prospectus, means of publication.
Schedule No. 3 to Act CXX of 2001

Content requirements of prospectuses for public offering

All prospectuses for public offering must contain the following:

I.

a) Summary page
   Name of the issuer, the issuer's obligations entailed in the public announcement relating to the procedure, name of the seller if other than the issuer, name of the broker/dealer involved, description of the commitments relating to the prospectus for public offering and to the public announcement, first and last day of subscription or sale, number and date of the Commission's authorization.

b) Description of the issuer
   1) corporate name,
   2) registered office, business locations,
   3) date of foundation, date and place of registration, number of registration,
   4) subscribed and paid-up capital,
   5) term of operation,
   6) the fiscal year,
   7) place of publication of official announcements,
   8) sphere of activities with an indication of the respective TEÁOR numbers, and if any activity is subject to licensing a statement on the existence and contents of such a license,
   9) class and type of any previous issues of securities still in circulation, date of subscription and the results of subscription,
   10) description of the market position and price trends of the securities still in circulation,
   11) number and designation of shareholders,
   12) list of all shareholders recorded in the share register with a holding of five per cent or more in the company's capital, with an indication of the percentage of their holding in each type of security,
   13) list of all shareholders recorded in the share register holding ten per cent or more of the securities of the issuer which were issued previously,
   14) the issuer's organizational structure,
   15) number of employees,
   16) particulars of executive employees and their professional qualifications, in particular education, trade skills and experience. If holding any executive office in another business association it must be indicated as well. Any holding of the executive employee in the securities issued by the issuer,
   17) dividend entitlements, preferential rights, enforcement of liquidation rules, description of voting rights, rules relating to transferability of shares, seller's and buyer's options, pre-emption rights, as well as other limits of negotiability,
   18) the conditions of issue, purchase and repurchase of employees' shares, if any.

c) Business activity of the issuer
   1) brief overview of the history of the issuer on the development of his business activity for the five business years preceding the date of issue,
   2) description of principal economic and business operations, services, scope of activities,
   3) amount and composition of the registered share capital, equity capital, capital reserves, provisions (including revaluation, contributions in kind),
   4) figures on sales revenues, costs and contribution margins by categories of products and services,
   5) profit or loss tendencies, cash flow statements for at least the three years preceding the date of issue,
   6) sales figures concerning goods and services,
   7) customer relations,
   8) relations with suppliers (extent of dependence on main suppliers),
9) list of tangible assets,
10) stocks and inventories (average stock, turnover ratio, idle stocks),
11) tangible assets in course of construction,
12) research and development activities,
13) structure of outstanding loans and credits, short- and long-term liabilities (accounts payable to suppliers, bills payable, taxes, social insurance contributions, customs duties owed), amount of any fines and penalties and default interests,
14) mortgages and other pledges registered on the issuer's property,
15) major economic indices (profitability, cost efficiency, liquidity, etc.),
16) market conditions of the sector, market positions, profile of competitors,
17) tax allowances, subsidies,
18) profile of investments if the market value of an investment (or if it cannot be established, the nominal value thereof) exceeds ten per cent of the share capital of the issuer, or, if the issuer has a direct or indirect majority interest in the given company,
19) main direction of expansions of a professional nature,
20) patents, trademarks and similar rights held by the issuer,
21) contents of any contracts concluded between the issuer and the shareholders, or among the shareholders, which might have a substantial impact on the company's operations and business activities, as well as the contents of contracts concluded between the issuer and its executive employees having an effect on the company's operations.
d) Financial report and related information
1) The prospectus shall be accompanied by the annual report covering the last three years prepared in accordance with the Accounting Act (the balance sheet, the profit and loss account and the notes on the accounts, the business report concerning the last year, the consolidated balance sheet and profit and loss account), as well as the auditor's report and, if established by way of transformation within one year, the statement of holdings.
2) The prospectus shall contain an introduction of the issuer's accounting policy, as well as the latest financial information available since the date of closing the last balance sheet. Such latest financial information must be comparable with the figures of the balance sheet compiled according to the legal provisions on accounting.
3) If the issuer's business activities are supported by an annual report prepared in accordance with IAS principles, the prospectus - apart from what is contained in Points 1 and 2 - shall also include the annual accounts with all related appendices prepared according to IAS principles, along with an explanation of any deviations between the annual accounts prepared according to the legal provisions on accounting and those prepared under IAS principles.
e) Lawsuits
A list of any lawsuits in which the issuer is involved, whether as the plaintiff or as the defendant, if the litigated value exceeds ten per cent of its share capital.
f) Issue particulars
1) number, contents and date of the decision for offering,
2) name of the person making the offer, if other than the issuer,
3) name and address of the chief broker/dealer involved,
4) name of investment service providers participating in the subscription procedure,
5) name and address of payment and deposit locations,
6) name and address of underwriters of subscription guarantees, indicating the amount guaranteed for subscription,
7) costs of the subscription procedure,
8) total amount planned to be raised by the issue and the purpose for which it will be used,
9) class and type of securities, description of the rights attached to them, securities codes,
10) pre-emption rights, any restrictions concerning negotiability,
11) quantity of securities issued, their face value, issue price, and formula for determining the issue price,
12) series and serial numbers,
13) first and last day of subscription or sale,
14) payment terms and conditions, bank account number for making payments,
15) procedure for over- or under-subscription, allocation information,
16) draft transcript of the written instrument of dematerialized securities.

II.

Concerning the public offering of securities additional requirements may be prescribed by the legal regulation pertaining to the securities in question.

III.

1) If the issuer or its predecessor had been adjudicated in bankruptcy or liquidation within a period of three years preceding the date of the public offering, the prospectus shall contain information relating to such proceedings.
2) If a person has provided guarantees for commitments embodied in securities, the prospectus shall contain the information under Paragraphs b)-e) of Part I and in Point 1 above pertaining to the person underwriting such guarantees.
3) The prospectus must expressly indicate the most extreme risk factors imminent in the issuer's business activities.
4) The prospectus must indicate the facts set out in Subsection (1) of Section 40 and in Section 207 of this Act.

IV.

The format of the listing particulars for the admission of securities series to official stock exchange listing
1. name and address of the investment service provider who participates in the admission procedure;
2. number and date of the general meeting (or board) resolution on the decision for official stock exchange listing;
3. statement of the issuer declaring that he is not engaged in bankruptcy or liquidation (compulsory or voluntary) at the time of submission of the application for the admission to the Commission, that he has satisfied all payment obligations during the previous two years or, if less than two years, since the commencement of operations, that he has no public debts, and that he has not been condemned by final judgment for any payment default;
4. if the investment service provider who participates in the admission procedure is not the same as the one who participated in the marketing, a statement of such investment service provider declaring his joint and several liability with the issuer for the listing particulars being true and correct and that, to the best of his knowledge, the listing particulars do not conceal any material fact or information that is necessary for investors to make an informed judgment of the issuer and the securities series to which the listing particulars pertain;
5. the issuer’s statement that the securities in question are marketable and that he is not aware of any contract or agreement that has the capacity to impede the free movement of the securities series in question;
6. the latest economic, legal and financial information on the issuer if more than six months lapsed from the closing of the public offering procedure until the submission of the application for admission;
7. figures on the over-the-counter trading of the securities from the time of the public offering until the submission of the application for admission (quantity sold, average price with the minimum and maximum price indicated) if the duration is over six months;
8. auditor’s report (attached subsequently) for the last flash report of the issuer before submission of the application for admission;
9. names of any persons with a holding of over five per cent in the securities series at the time of submission of the application for admission, with the percentages of holding indicated;
10. all other data and information prescribed by legal regulation in force at the time of submission of the application for admission and by exchange regulations as approved by the Commission.

For the purposes of preliminary authorization for the admission of securities issued by an international financial institution into the official listing of a Hungarian stock exchange, the term ‘listing particulars’ shall be understood as ‘prospectus’ as contained in Schedule No. 7.

Schedule No. 4 to Act CXX of 2001

Content requirements of prospectuses prepared for the issue of bonds by local governments

The prospectuses prepared by local governments must contain the following:

a) Summary page
   Name of the issuer, the issuer's obligations entailed in the public announcement relating to the procedure, name of the seller if other than the issuer, name of the broker/dealer involved, description of the commitments relating to the prospectus for public offering and to the public announcement, first and last day of subscription or sale, number and date of the authorization for publication of the prospectus.

b) The issuer
   1) name,
   2) address,
   3) place of publication of official announcements,
   4) class and type of the securities to be issued,
   5) class and type and material information of any previous issues of securities still in circulation, list of issues and results of subscription, commitments of the issuing local government relating to the securities issued,
   6) description of the market position and price trends of the securities still in circulation,
   7) the issuing local government's organizational structure,
   8) number of employees,
   9) particulars of elected officers (mayor, deputy mayor, representatives, committee chairman) and of the executive employees (notary, assistant notary, financial officer, director of the field for the purposes of which the securities are issued) and their professional qualifications, in particular education, trade skills, experience, etc.

c) Description of the local government
   (covering at least three years preceding the date of issue)
   1) brief overview of the history of the local government,
   2) geographical boundaries, size of area,
   3) residential, industrial, commercial, agricultural, etc. areas covered in the regional development plan,
   4) mandatory and voluntary commitments,
   5) history of normative subsidies received in relation to the purpose of the issue, central and local funds available for projects and duties at the time of issue,
   6) population of the area governed by the local government, per capita income, statistics concerning age groups, education and skills,
   7) number of business associations and licensed self-employed persons registered in the area, broken down per trades,
   8) important changes in the local government's area of jurisdiction,
9) unemployment indices,
10) local taxes levied (tourism, community, land, building, local business taxes),
11) funds received from central taxation sources,
12) budgetary information: summary and prospects of the current budget,
13) list of income and expenses in the annual budget,
14) if the principal and interest of the bonds are covered by a single designated source the nature and potential of this source (fees, taxes, other) must also be indicated,
15) restrictions pertaining to debt servicing sources, if any,
16) any legal ramifications imposing limitations on debt servicing under Subsection (2) of Section 88 of the Local Governments Act,
17) current debts and other tangible debts, overdue debts,
18) overdue receivables,
19) major lawsuits.

d) Financial report and related information
1) The prospectus must be accompanied by a simplified statement of holdings, a simplified financial report, a simplified profit and loss account and a simplified statement of remaining assets covering the three-year period preceding the date of issue and prepared in accordance with the legal provisions on accounting.
2) The prospectus shall contain the latest financial information available since the date of closing the last balance sheet. Such latest financial information must be comparable with the figures of the balance sheet compiled according to the legal provisions on accounting.
ed) Issue particulars
1) number, contents and date of the decision for offering,
2) name of the person making the offer, if other than the issuer,
3) detailed description of the purpose for offering,
4) name and address of the chief broker/dealer involved,
5) name of broker/dealers participating in the subscription procedure,
6) name and address of payment and deposit locations,
7) name and address of underwriters of subscription guarantees, indicating the amount guaranteed for subscription,
8) total amount planned to be raised by the issue,
9) costs of the subscription procedure,
10) class and type of securities, description of the rights attached to them,
11) securities codes,
12) pre-emption rights, any restrictions concerning negotiability,
13) quantity of securities issued, their face value, issue price, and formula for determining the issue price,
14) series and serial numbers,
15) first and last day of subscription or sale,
16) payment terms and conditions, bank account number for making payments,
17) procedure for over- or under-subscription, allocation information,
18) draft transcript of the instrument specified under Subsection (2) of Section 7.
f) The format of the listing particulars for the admission of securities series to official stock exchange listing
1. name and address of the investment service provider who participates in the admission procedure;
2. number and date of the general meeting (or board) resolution on the decision for official stock exchange listing;
3. statement of the issuer declaring that he is not engaged in bankruptcy or liquidation (compulsory or voluntary) at the time of submission of the application for the admission to the Commission, that he has satisfied all payment obligations during the previous two years or, if less than two years, since the
commencement of operations, that he has no public debts, and that he has not been condemned by final judgment for any payment default;

4. if the investment service provider who participates in the admission procedure is not the same as the one who participated in the marketing, a statement of such investment service provider declaring his joint and several liability with the issuer for the listing particulars being true and correct and that, to the best of his knowledge, the listing particulars do not conceal any material fact or information that is necessary for investors to make an informed judgment of the issuer and the securities series to which the listing particulars pertain;

5. the issuer’s statement that the securities in question are marketable and that he is not aware of any contract or agreement that has the capacity to impede the free movement of the securities series in question;

6. the latest economic, legal and financial information on the issuer if more than six months lapsed from the closing of the public offering procedure until the submission of the application for admission;

7. figures on the over-the-counter trading of the securities from the time of the public offering until the submission of the application for admission (quantity sold, average price with the minimum and maximum price indicated), if the duration is over six months;

8. auditor’s report (attached subsequently) for the last flash report of the issuer before submission of the application for admission;

9. names of any persons with a holding of over five per cent in the securities series at the time of submission of the application for admission, with the percentages of holding indicated;

10. all other data and information prescribed by legal regulation in force at the time of submission of the application for admission and by exchange regulations as approved by the Commission.

For the purposes of preliminary authorization for the admission of securities issued by an international financial institution into the official listing of a Hungarian stock exchange the term, ‘listing particulars’ shall be understood as ‘prospectus’ as contained in Schedule No. 7.

Schedule No. 5 to Act CXX of 2001

Content requirements of periodic disclosures

I.

The yearly flash report, the half-yearly flash report, and the annual account shall contain the company's interim and annual reports, and the related analyses shall be based on such reports, whereby

a) the reports must be prepared under the same accounting principles (if the issuer has modified the accounting principles employed for the various reports, comparability must be ensured nonetheless),

b) the auditor's report must be attached as an integral part of the annual account.

II.

The yearly and half-yearly flash reports shall contain a summary of the figures for the period in question in the following layout:

A) Finances

Profit and loss account:
I. Net sales revenues
II. Other income
III. Direct cost of sales
IV. Indirect costs of sales
V. Other operating charges
A. Income from operations
VI. Income from financial operations
VII. Costs of financial operations
B. Net profit or net loss on financial operations
C. Profit or loss of ordinary activities
D. Extraordinary profit or loss
E. Profit before tax

Balance sheet:
A. Fixed assets
I. Intangible assets
II. Tangible assets
III. Fixed financial assets
B. Current assets
I. Stocks
II. Accounts receivable
III. Securities
IV. Liquid assets
C. Prepayments and accrued income
TOTAL ASSETS
D. Equity capital
I. Subscribed capital
II. Subscribed capital called but unpaid (-)
III. Capital reserve
IV. Tied-up reserves
V. Revaluation reserve
VI. Profit reserve
VII. Profit or loss for the financial year
E. Provisions for liabilities and charges
F. Liabilities
I. Subordinated liabilities
II. Long-term liabilities
III. Short-term liabilities
G. Accruals and deferred income
TOTAL LIABILITIES

Each item shall have an indication of changes compared to the previous year in percentage points.
Where the issuer deems it necessary a brief explanation may also be attached.

B) Changes in the company

Any changes in the company's organizational structure, changes in staff including executive officers and employees, and any changes in ownership affecting five per cent of the capital or more.

III.

The annual report must contain the following information:
a) Overview of the issuer’s financial management in the current year, supported by analyses, to permit an informed and overall assessment based on comparative analyses in respect of at least the previous year.

The business analysis must cover the following aspects:
1) any changes in the sphere of activities, notably, if any new activity, branch, product or service is introduced,
2) any variations in the subscribed capital, capital reserve, profit reserve, tied-up reserves, profit or loss for the financial year and in the provisions,
3) assets in course of construction and completed projects,
4) loans and credits received, analysis of liquidity position,
5) analysis of financial figures (revenues, expenditures, profits, asset and liability account),
6) changes in business relations (customers, suppliers,
7) changes in market positions, analysis of changes),
8) number of employees,
9) changes in investments, introduction of the economic and financial position of companies involved in the consolidation,
10) business plans and forecasts,
11) particular risk factors imminent in the company's business activities.
   b) Implementation scheme concerning the purpose of issue.
   c) Changes in the securities structure of the issuer:
      1) particulars of securities issued by the company in the current year,
      2) detailed description of any changes in the current year concerning the rights attached to the securities in issue,
      3) any holding the issuer's executive employees have in the issuer's securities.
   d) List of executive employees, also indicating any changes in management positions with an explanation included. Particulars of new executive employees.
   e) Particulars of the previous year's audited annual report, with the auditor's report attached.

IV.

Content requirements of the annual accounts of local governments:
   a) Overview of the local government's activities during the previous year, supported by analyses, to permit an informed and overall assessment based on comparative analyses in respect of at least the previous year covering the corresponding sections of the annual report.
   b) Implementation scheme concerning the purpose of issue.
   c) Changes in the securities structure of the local government:
      1) particulars of securities issued by the local government in the current year,
      2) detailed description of any changes in the current year concerning the rights attached to the securities in issue.
   d) Any changes among elected officers and executive employees in the current year, with an explanation included. Particulars of new executive officers.
   e) Particulars of the previous year's audited annual report, with the auditor's report attached.

V.

In addition to what is contained in Chapter II of this Schedule, the biannual flash report shall contain the following information:

An analysis of company operations and of the company’s profit and loss account shall be attached. The analysis shall contain all of the necessary information for investors to assess the data pertaining to the company’s activity and its profit or loss and to permit a comparison with the previous financial year. All of the facts and circumstances of any influence on the operations and the results of the previous period must be indicated, along with the rate of growth projected for the company during the fiscal year. If the company pays or intends to pay a dividend, the amount of profit or loss for the half-year period shall be indicated as well as the amount of dividend advance paid or intended to be paid.

Schedule No. 6 to Act CXX of 2001
Content requirements of extraordinary disclosures

I.

1) Proposed changes in the rights attached to the securities, and the implementation thereof,
2) plans to issue privately offered securities,
3) date and place and terms and conditions of payment of interest, dividends and other yield,
4) termination of commitments arising from the securities, manner of settlement of commitments,
5) any agreement among the shareholders of the issuer which might have an impact on the issuer or on the other shareholders,
6) a decision of the board of directors which might have a substantial impact on the company's operations and market position,
7) decisions entailing significant organizational changes (demerger, merger, transformation),
8) any changes in the sphere of activities (commencement or discontinuance of activities), changes in market orientation (opening of new markets, large orders cancelled, markets of certain countries closed up),
9) invitation to the general meeting, resolutions of the general meeting indicating the numbers of resolutions and the ballot ratio by which they were adopted,
10) blocking of the issuer's bank account,
11) commencement and conclusion of bankruptcy, liquidation or voluntary dissolution proceedings,
12) loss of at least ten per cent of the registered share capital or the equity capital,
13) any borrowing in excess of twenty-five per cent of the registered share capital or the equity capital,
14) any license received or revoked, which might have a substantial impact on the company's economic performance,
15) commencement and conclusion of lawsuits in which the issuer is involved, whether as the plaintiff or as the defendant, any proceedings of the tax authorities, fines and penalties imposed, if the amount of damages awarded by final judgment exceeds ten per cent of the share capital,
16) any changes in management positions and any holding of a newly appointed executive officer in the issuer's securities,
17) indicating any sentence received by an executive employee of the issuer, if it is related to the issuer's operations or financial standing,
18) any changes in the quantity of the issuer's securities held by the issuer's executive employees,
19) new investments made by the company, or increasing the company's stake in existing investments if it entails a holding of ten per cent or more in the capital of the company in question,
20) disposal of the company's existing investments in part or entirety, if the investment sold constitutes more than ten per cent of the capital of the company in question,
21) the issuer shall be liable to disclose any extraordinary information with regard to its consolidated company, if such company is not required under this Act to disclose regular or extraordinary information,
22) option or order for the sale or purchase of the issuer's own securities, and its realization (date, quantity, price, name of investment service provider),
23) any substantial changes in risk factors,
24) any substantial changes in the company's plans and strategies,
25) a final statement in connection with the repayment of the principal and the last payment of interest due on bonds,
26) in respect of bonds, a progress report of the project financed by the bonds, including the completion of major phases and stages,
27) any changes in the issuer's particulars in terms of public relations (new address, new telephone number, fax number, etc.), customer service address and other means of access,
28) a major contract signed by the issuing company,
29) any information, other than what is contained above, that is of importance in respect of the issuer.
II.

Information to be published by local governments

1) Proposed changes in the rights attached to the securities, and the implementation thereof,
2) plans to issue privately offered securities,
3) termination of commitments arising from the securities, manner of settlement of commitments,
4) a decision of the board of representatives which might have a substantial impact on the local government's financial situation,
5) decisions entailing significant organizational changes,
6) blocking of any of the local government's bank accounts,
7) commencement of bankruptcy proceedings against the local government,
8) any borrowing in excess of ten per cent of the estimated annual revenues of the local government,
9) any hardships concerning the project financed through the issue (any permit revoked, natural disasters and other catastrophes, etc.),
10) commencement and conclusion of lawsuits in which the local government is involved, whether as the plaintiff or as the defendant, if the litigated value exceeds ten per cent of its estimated annual revenues,
11) any changes among the leading officials,
12) any sentence received by an executive employee of the local government (particularly if it pertains to economic or financial crimes),
13) any motion for the dissolution of the local government, and the basis for its decision, if granted,
14) new investments made by the local government, or increasing its stake in existing investments if it entails a holding of ten per cent or more in the capital of the company in question,
15) disposal of the local government's existing investments in part or entirety, if the investment sold constitutes more than ten per cent of the capital of the company in question,
16) any substantial changes in risk factors,
17) any information, other than what is contained above, that is of importance in respect of the local government.

Schedule No. 7 to Act CXX of 2001

Content requirements of prospectuses prepared by international financial institutions

All prospectuses prepared for the public offering of securities by an international financial institution must contain the following items:
1) name of the issuer, an introduction,
2) reference to the authorization for issue or the decision for offering, including the number, contents and date of such authorization or decision,
3) quantity planned to be issued,
4) name and address of the leading broker/dealer,
5) other broker/dealers involved,
6) name and address of payment and deposit locations,
7) designation of the securities, purpose of the issue,
8) class and type of securities, description of the rights attached to them,
9) any restrictions concerning negotiability,
10) quantity of securities issued, their face value, issue price, and formula for determining the issue price,
11) series and serial numbers, securities codes,
12) first and last day of subscription or sale,
13) payment terms and conditions, bank account number for making payments,
14) procedure for over- or under-subscription, allocation information,
15) last fiscal year's financial figures,
16) the issuer's last audited balance sheet (prepared according to national law),
17) total amount planned to be raised by the issue and the purpose for which it will be used,
18) name and address of the underwriters of subscription guarantees, indicating the amount guaranteed for subscription,
19) draft version of the transcript of the securities (specimen) or a draft version of the transcript of the written instrument described in Subsection (2) of Section 7.

Schedule No. 8 to Act CXX of 2001

Content requirements of the operating plan and business report to be prepared by the bidder when acquiring a major holding in a public limited company by way of purchase offer

I. Operating Plan

1) bidder's name and address (residence);
2) name and address of target company;
3) brief description of the bidder's history and business profile;
4) brief résumé of the bidder's executive employees and supervisory board members;
5) detailed description of any agreements between the bidder, or the parties holding an interest in the bidder, and the target company, or the parties holding an interest in the target company, if the agreement(s) carry any weight regarding the purchase offer;
6) detailed description of any agreements between the bidder, or the parties holding an interest in the bidder, and the target company, or the parties holding an interest in the target company or the executive employees of the target company, if the agreement(s) carry any weight regarding the purchase offer;
7) description of the bidder's financial position, indicating any changes and fluctuations therein;
8) bidder's declaration of having sufficient funds to cover the purchase offer, and a description of such funds;
9) if the consideration quoted in the purchase offer also includes any shares of a public limited company:
   a) name of the issuer of the securities offered in consideration, and his relationship with the bidder,
   b) essential characteristics and terms of the securities,
   c) information concerning the last twelve months' trading (minimum price, maximum price, average price, volume) if the security is listed on a stock exchange,
   d) the price and the calculation formula of the security as included in the consideration;
10) declaration of liability for the authenticity of data and information contained in the purchase offer and in the business report.

Schedule No. 9 to Act CXX of 2001
Content requirements of the response of the board of directors of the target company to a purchase offer

1) name and address of the company;
2) executive summary of the purchase offer, including fundamental terms and conditions (price, period within which the declaration of acceptance is to be introduced, payment terms);
3) a declaration to state whether the executive employees of the target company hold any executive office or have any participating interests in the bidder, or in the holder of participating interests in the bidder, or any other relationship between the aforementioned;
4) the target company's ownership structure, list of persons having at least five per cent interest, number of their shares and the number of their votes;
5) any effect on the company's employees on account of the acquisition of participating interests;
6) recommendation of the target company's board of directors whether to accept or reject the purchase offer, including a detailed explanation; in the event that there is any vote against the recommendation or if a member of the board of directors did not vote, it shall also be indicated;
7) whether the board of directors of the company hired an independent financial expert:
   a) name of the independent financial expert,
   b) a declaration to state whether there is any conflict of interest regarding the expert that could affect his ability to proceed unbiased.

Schedule No. 10 to Act CXX of 2001

Enclosures to be attached with the license application of investment service providers

1) The license application of investment service providers shall have the following documents attached:
   a) organizational and operational regulations that contain a description of the proposed activities and the applicant's decision-making and management structure;
   b) business plan;
   c) detailed description of the equipment and technical facilities prescribed by this Act and by specific other legislation;
   d) copies of documents to verify compliance with the requirements concerning personnel qualifications and credentials;
   e) drafts of the standard terms and conditions, standard service agreement, internal regulations for the prevention of money laundering operations, internal regulations for the handling of money and valuables, and the internal regulations referred to in Section 92 and in Sections 108-112;
   f) in respect of securities custodian services, internal regulations concerning security, account management and depository procedures;
   g) proof of payment of the administration and service charges specified in specific other legislation;
   h) draft of the contract between the service provider and agent, if applicable;
   i) the auditor’s confirmation to certify that the service provider’s informatics system has sufficient facilities to satisfy the requirements laid down in Subsection (4) of Section 92;
   j) drafts of internal regulations for monitoring, weighting, controlling and handling risks, and
   k) draft of the internal regulations relating to the trading book;
   l) the certificate of the Investor Protection Fund in proof of having submitted an application for admission and in proof of payment of the affiliation fee, if the application pertains to an insured activity and if joining the Fund is prescribed as mandatory under this Act;
   m) in the case of investment firms that are subject to supervision on a consolidated basis or supplementary supervision, a description of the apparatus for the conveyance of information related to supervision on a consolidated basis or supplementary supervision and a statement from the persons with a close link to the investment firm guaranteeing to provide the Commission with the data, facts and
information that are necessary for supervising the investment firm on a consolidated basis or for supplementary supervision;

n) a statement from each natural person closely affiliated with the investment firm containing his consent to have the personal data he has disclosed to the investment firm processed and released for the purposes of supervision on a consolidated basis or supplementary supervision in accordance with this Act.

2) Any applicant intending to operate as an investment enterprise shall, in addition to the documents described in Point 1, enclose the following with the application:

a) its bylaws (charter document), and any amendments thereto;

b) a certificate proving that the prescribed subscribed capital has been duly paid up and a declaration, substantiated by the proper documents, stating that money required for the subscribed capital is from legitimate sources;

c) a copy of its share register;

d) a statement on having a main office in Hungary from which to direct the operations of the investment enterprise;

e) if having several business locations, description of the equipment and technical facilities featured in the one where the activity is planned to be performed;

f) name of any business association in which the applicant has a participating interest;

g) description of its accounting policy and accounting system;

h) the draft regulations concerning its business records;

i) the draft regulations concerning its revision and control regime;

j) description of the activities, pursuant to Section 81, performed by a foreign applicant, and the locations where such activities are performed;

k) the decision-making authority of the executive officer or officers of an investment enterprise operating as a branch office, and the bodies of the applicant, the approval of which is required for certain decisions to be valid;

l) for foreign applicants, a certificate from the competent supervisory authority stating that, in relation to executive officers of nationality other than Hungarian, there are no disqualifying factors for holding such office.

3) Applicants shall attach a declaration of joining the central credit information system to the application for authorization to engage in the activity described in Paragraph c) of Subsection (2) of Section 81 [Paragraph l) of Subsection (2) of Section 18 of the CIFE].

4) If the application is filed by a credit institution, the description specified in Paragraph e) of Point 2 and the statements specified in Paragraphs j) and k) of Point 2 are to be attached in addition to the documents specified in Point 1.

Schedule No. 11 to Act CXX of 2001

Requirements concerning the personnel, equipment and technical facilities of institutions providing portfolio management and investment fund management services

Personnel criteria

1) The director of operations must be a person with no prior criminal record, must have at least five years of professional experience, and must have the education specified in specific other legislation, to whom none of the disqualifying factors listed under Section 357 applies.

2) The persons hired for portfolio management and for trading in investment instruments must have no prior criminal record, must have at least two years of professional experience, and must have the education specified in specific other legislation, to whom none of the disqualifying factors listed under Section 357 applies.

3) The director of the back office must be a person with no prior criminal record, must have at least two years of experience in portfolio management, investment fund management or banking, and must have the
education specified in specific other legislation, to whom none of the disqualifying factors listed under Section 357 applies.

4) If an institution providing portfolio management services is also engaged in the sale of its own services and products, the person hired for these activities must have no prior criminal record, must have at least one year of professional experience, and must have the education specified in specific other legislation, to whom none of the disqualifying factors listed under Section 357 applies.

5) In the application of the above, for investment fund managers, managers of Europe-based investment funds and investment service providers, time spent in the employ of the department of investments of a credit institution/insurer/pension fund or in the custody department of a credit institution, in the employ of the National Bank of Hungary, the Commission, the Ministry of Finance, an exchange, a clearing house, the Government Debt Management Rt., and the Hungarian State Treasury, furthermore, for real estate fund managers time spent in the employ of a real estate broker, or the foreign equivalent of these in some form of employment relationship shall be recognized as professional experience.

Equipment requirements

Institutions providing portfolio management and investment fund management services must have sufficient office space available at their disposal, and must have sufficient communications facilities (telephone, fax, e-mail).

Technical requirements

Institutions providing portfolio management and investment fund management services must have

a) an accounts system with sufficient facilities to satisfy the criteria of separate handling and recording as specified in this Act,

b) a portfolio records system that is serviceable to provide accurate and up-to-date information concerning the assets contained in the various portfolios, and that has facilities for the mandatory disclosure of information, and that conforms with the requirements of internal control and control by the Commission.

Schedule No. 12 to Act CXX of 2001

Content requirements of the operating regulations of institutions providing investment fund management and portfolio management services

1) Rules for the prevention and handling of any conflict of interest.
2) With the exception set out in Section 135, rules for separating portfolio management from all other activities in which the portfolio manager is engaged.
3) Rules for separating the functions of the front office and that of the back office.
4) Rules conferring decision-making authority within the organization.
5) Rules for retaining data files.
6) Rules of confidentiality.
7) Rules on communication facilities provided to investors by which to reach the portfolio manager or the investment fund manager.

Schedule No. 13 to Act CXX of 2001

Content requirements of the procedural regulations of investment fund managers and portfolio managers

1) Rules on the evaluation of assets.
2) Rules on risk management principles.
3) Rules on the principles of transfer or delegation of activities.
4) Rules on the means and frequency of disclosure of information to investors.
5) Principles and rules on performance rating.
6) Requirements for the training of employees.
7) Rules on investments by executive officers and employees.
8) Rules on diversification and spreading.

Schedule No. 14 to Act CXX of 2001

Content requirements of portfolio management contracts

1) Conditions for the commencement of portfolio management services.
2) Terms and conditions for the termination of portfolio management services.
3) Investment guidelines.
4) Sphere of potential investment instruments, with special emphasis on derivative instruments.
5) Basis for the calculation of portfolio management fees, rates and billing.
6) Expense account for portfolio management services.
7) Rules on the evaluation of investment instruments.
8) Rules on performance rating.
9) Rules on lending or pledging any investment instruments of an investor which are part of his portfolio.
10) Rules on the disclosure of information to investors.
11) Description of the assets received.

Schedule No. 15 to Act CXX of 2001

Rules and principles for the assessment and disclosure of earnings achieved in a portfolio managed by a portfolio manager, an investment fund manager, or a service provider managing the assets of the Voluntary Mutual Insurance Fund or private pension funds under contract

The documents prepared under this Schedule shall not serve to substitute for the reports, which are to be prepared by institutions providing portfolio management and investment fund management services in order to enable their clients to comply with their reporting obligations.

The objective of the internal regulations on return assessment, disclosure and publication is to assure the investor that the information on earnings is complete and correct. Compliance with these provisions and the uniformity of the yield calculation methods serve the purpose of making the performance of the various portfolios - including the investment funds and the assets of the Voluntary Mutual Insurance Fund and of the private pension funds - as comparable as possible.

1) All data and information, which are necessary to demonstrate to results achieved in a portfolio and to perform the prescribed calculations must be compiled and kept on file.
2) All source information for portfolio assessment and the methods employed must be made available to the investors.
3) All portfolios must be evaluated at least monthly.
4) Portfolios must be evaluated on a market value basis.
5) For the evaluation of interest-bearing bonds and all other instruments on which any interest is paid the amount of interest accrued for a given period must be taken into consideration.
6) Yields from moneys and other similar instruments must be included in total earnings.
7) Yields shall be computed on each trading day.
8) Unless otherwise prescribed by legal regulation, the yield of portfolios shall be calculated on a capital-weighted monthly average or time-weighted daily average.
9) Return must be assessed on the whole, including any and all capital gains and profits, if realised or not.

10) The earnings of the various periods must be shown in a geometrical sequence.

11) The return achieved in periods of less than one year cannot be computed on an annual basis.

12) Every yield figure must have an indication as to which period it pertains.

13) The costs and expenses of trading shall not be included when rating the efficiency of management.

14) Non-refundable withholding tax on dividends, interest income and capital gains must be deducted from the yield amount. Withholding tax that can be refunded shall be taken into consideration.

15) It shall be indicated whether the yield calculated is net or gross, namely, whether it includes the fees paid by the investor to the portfolio manager or to its affiliated company.

16) Any fact and additional information that may be of importance for making an informed judgement of a portfolio's performance, or to offer an explanation for the yield calculated shall also be indicated.

17) In terms of efficiency rating, any diversification of capital or use of derivative instruments, and the extent of such, shall be demonstrated in a yield calculation so as to permit the identification of risks.

18) Where a reference index has been made part of a portfolio, in line with the underlying investment policy, the yield of such a reference index is to be shown for the same period or periods to which the yield of a portfolio pertains using the same yield calculation methods.

19) When rating the efficiency of an investment fund manager or portfolio manager, the yield figures shall cover the past five years or, if less than five years, the full period of their activities, broken down by calendar year.

Schedule No. 16 to Act CXX of 2001

Content requirements of investment funds' operating regulations

I.

1) Name, type and term of the investment fund.

2) Terms and conditions for underwriting guarantees, when applicable.

3) Number and date of resolutions adopted by the Commission and by the fund manager relating to the approval or amendment of the fund's operating regulations.

4) The names and addresses of the fund manager, the custodian and the real estate appraiser, their spheres of activities and key corporate particulars,

5) Name and address of any potential subcontractor, including a brief explanation of the reason for requiring his services.

6) Investment policy of the investment fund, showing separately:

   a) investment strategies;
   b) potential components of the portfolio and their proposed ratio,
   c) maximum, minimum or proposed ratio of the various types of securities, denominated in any currency, or a clear and express indication if there are plans to place more than thirty per cent of the available capital into securities which are denominated in the foreign currency, exclusive of the securities denominated in the domestic legal tender,
   d)
   e) potentially targeted derivative instruments or derivative transactions, the objective and conditions under which they will be used, any major risk factors,
   f) if the prevailing investment policy ensures capital or yield guarantees, a description of the underlying transaction shall also be included.
   g) the regulations for the encumbrance of real properties that are part of the portfolio of the real estate fund.

7) Description of the rights attached to investment certificates.

8) Rules on trading the investment certificates.
9) Rules pertaining to the suspension of the continuous issue of investment certificates of an open-ended investment fund by the fund manager.

10) Rules concerning the assessment and payment of capital increments and dividends.

11) An itemized list of all fees and expenses charged to the investment fund, detailed information concerning the amount and calculation method of such fees and charges and their accounting.

12) Sales and redemption commissions and other costs charged directly to the investors.

13) The formula for the calculation of the aggregate net asset values and the net asset value per investment certificate, the frequency of calculation and the means, the date and place of its publication.

14) Formula for the calculation of the selling and redemption price of the investment certificates of open-ended investment funds.

15) Rules on regular and extraordinary disclosures of information to investors, the means and the place and date of such disclosures.

16) Provisions concerning the termination, transformation or merger of the investment fund.

17) Detailed rules on the evaluation of the individual components of a portfolio.

18) For open-ended investment funds, the minimum quantitative criteria for liquid assets and lines of credit set aside to finance redemption claims.

19) For open-ended investment funds, rules on financing redemption claims from borrowed money.

20) The rules for lending or pledging any investment instruments that belong to an investment fund.

21) For investment funds investing in other investment funds, and if it plans to invest more than twenty-five per cent of its capital into a single investment fund, the investment policy and operating budget of this investment fund shall also be included.

22) The front page of the prospectus, summary prospectus and operating regulations of any investment fund that invests in derivative instruments must contain a clear and express notice to advise investors concerning the higher-than-usual risks involved in such operations.

II.

1) In addition to the above the operating regulations of a private investment fund shall also indicate:
   a) the first and last day of subscription,
   b) the name and address (residence) of the designated buyers of the investment certificates.

2) In respect of a real estate fund, the investment policy of which is designated for a specific real estate project or a group of projects (project fund), a detailed introduction shall be provided concerning the background and conditions for their implementation.

3) In respect of European investment funds that carry higher-than-average risks owing to their investment policies, it shall be clearly indicated.

Schedule No. 17 to Act CXX of 2001

Content requirements of a public-offer prospectus prepared for the public offering of investment certificates

I.

1) Particulars of the public announcement and the offer:
   a) brief introduction of the proposed investment fund offered for sale;
   b) place of subscription, sales location;
   c) terms and conditions of subscription and payment;
   d) subscription price, purchase price;
   e) first and last day of subscription;
   f) procedure for over- or under-subscription;
g) name of supervisory authority, applicable regulations;
h) description of rights attached to the investment certificates.

2) If the fund manager or the custodian had been adjudicated in bankruptcy within three calendar years prior to the first day of sale of the investment certificates, the prospectus shall contain information relating to such a proceeding.

3) Information on the underwriter of any express guarantee.

4) Name and address of the real estate broker, appraiser, and the auditor.

5) Information on the potential markets of investments.

6) Definition of the properties offered in exchange for the investment certificates of a private real estate fund.

7) Sales locations, name and particulars of agents.

8) Particulars of the fund manager, including his name, address, date of foundation, registration number, date and place of registration, sphere of activities, term of operation, definition of fiscal year, registered capital, ownership structure, particulars of executive employees and their professional qualifications, essential business information (comparative figures from the balance sheets of the previous three years, market position, number of employees), description of any other investment funds he manages (starting date, investment policy, extent, annual yield achieved), duties.

9) Particulars of the custodian, including his name, address, date of foundation, registration number, date and place of registration, sphere of activities, term of operation, definition of fiscal year, registered capital, ownership structure, particulars of executive employees and their professional qualifications, essential business information (balance sheets of the previous three years, number of employees), duties.

10) Particulars of the real estate appraiser, including his name, address, date of foundation, registration number, date and place of registration, sphere of activities, term of operation, definition of fiscal year, registered capital, ownership structure, particulars of executive employees and their professional qualifications, essential business information (balance sheets of the previous three years), number of employees, duties.

11) The fund's operating regulations compiled on the basis of Schedule No. 16 must be attached as an integral part of the public-offer prospectus.

II.

Additional information to be supplied in the prospectuses of European investment funds

1. Name and address of any potential subcontractor.
2. The investment fund’s past performance and yield.
3. Description of investors for whom the investment fund is recommended.
4. Brief description of the tax regulations pertaining to the investment fund and affecting investors.
5. Name and description of the counsel and the key elements of the contract he has concluded with the investment fund, except the clauses pertaining to his remuneration.
6. Any office or employment relation the executive officers have in other companies.

III.

1) If the particulars of the fund manager, the custodian and the real estate appraiser are furnished in the respective company's annual report, they shall not be incorporated into the prospectus.

2) The rules on the evaluation of the individual components of portfolios may be supplied to the investors, apart from the fund's operating regulations.

Schedule No. 18 to Act CXX of 2001

Content requirements of summary prospectuses
1) The intended purpose of a summary prospectus is to provide the investors with an extract of the issue prospectus or fund operating regulations, to contain essential information only. A simplified prospectus may not be older than fifteen months.

2) The summary prospectus must clearly contain the following information:
1) Purpose of the investment fund, the investment objective fixed in the investment policy;
2) Name and particulars of the fund manager;
3) Name and particulars of the broker/dealer;
4) Name and particulars of the custodian;
5) Name of the fund's auditor;
6) Name and particulars of the investment counselor;
7) Description of the risks related to the fund’s investment policy;
8) Direct and indirect costs charged to the investors;
9) Investor protection scheme: guarantees and security components;
10) Previous yields achieved by the fund;
11) List of sales locations, means of publication of information supplied by the fund.

3) All summary prospectuses must contain the following message:
The fund's past history of operations concerning yield and earnings shall not automatically guarantee the same in future investments.

4) Additional information to be supplied in the summary prospectuses of European investment funds:
1) Date on which the investment fund was created and its home country;
2) Name of the competent supervisory authority;
3) Name and address of any potential subcontractor;
4) Description of investors for whom the investment fund is recommended;
5) Term of the investment fund, if it is close-ended fund;
6) Method of purchasing and selling investment certificates;
7) Sales and redemption commission and other costs and cost bearers;
8) Information concerning the publication and availability of net asset value;
9) Brief description of the tax regulations pertaining to the investment fund and affecting the investors;
10) Date on which the prospectus is published;
11) The past performance of the investment fund;
12) Date and method of yield payment, if any.

5) The summary prospectuses of European investment funds shall contain a brief notice to the effect that the prospectus as well as the annual and biannual reports will be made available, before and after contracting, to investors upon request.

The summary prospectuses of European investment funds shall indicate the contact person (name, department, office hours) for requesting further information.

Schedule No. 19 to Act CXX of 2001

Content requirements of notices of dissolution

A notice of dissolution must indicate the following information:
 a) the book value of the assets in the portfolio upon maturity, separately for each asset,
b) the price received for an asset that has been sold,
c) any additional revenues,
d) an itemized list of costs and fees charged upon final settlement,
e) the amount of capital to be distributed among the investors,
f) the amount payable per investment certificate, and
g) the first day and place of payment.

Schedule No. 20 to Act CXX of 2001
<table>
<thead>
<tr>
<th>Type of fund</th>
<th>publicly offered open-ended security</th>
<th>publicly offered close-ended security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit per issuer in percentage of capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) listed securities with sufficient liquidity</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>b) other listed securities, the securities referred to in Paragraph b) of Section 275, public open-ended collective investment instruments</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>c) unlisted</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Aggregate limit in percentage of capital</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>d) listed securities with sufficient liquidity if exceeding the limit specified in line &quot;b&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) unlisted securities</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>f) collective investment instruments, excluding public open-ended collective investment instruments</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>Other limits in percentage of capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) government securities of the same series</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Schedule No. 21 to Act CXX of 2001**

**Content requirements of half-yearly and yearly reports to be prepared in connection with publicly offered investment certificates**

Yearly and half-yearly reports are to be prepared so as to permit investors to make an informed assessment of the fund, the risks and the potential results.

Yearly and half-yearly reports must contain the following information:

1) name of the investment fund, its type and term;
2) name and address of the fund manager, the broker/dealer and the custodian involved;
3) name and address of the auditor and the real estate appraiser;
4) composition of the investment instruments or real properties, broken down per class and type, or according to the categories laid down in the investment policy at the beginning and at the end of the fixed term;
5) number of investment instruments in circulation in the beginning of the period, the quantity sold and redeemed during the period and the quantity in circulation at the closing of the period, the net asset value of the portfolio in the aggregate and the net asset value per investment instrument;
6) conditions of a loan received by the fund;
7) variations in the fund's capital and in the net asset value per certificate during the period to which the report pertains, shown at least on a monthly basis, as well as the amounts of yield paid out;
8) changes in the fund manager's operations, major factors having an impact on the investment policy;
9) for yearly reports, the fund's audited balance sheet;
10) for yearly reports, the auditor's report concerning the investment fund in question;
11) for yearly reports:
   a) income from investments,
   b) other income,
   c) fees paid to the fund manager,
   d) fees paid to the custodian,
   e) other charges and taxes,
   f) paid out and reinvested income,
   g) value adjustment in respect of invested assets,
   h) any other changes having an effect on the value of assets;
12) for yearly reports:
   a) the last aggregate net asset value of the fund calculated in the calendar year and the net asset value per certificate in the last three years, not including the subject period,
   b) information on derivative transactions.

Schedule No. 22 to Act CXX of 2001

Enclosures to be attached with the license application of commodities brokers

1. The license application of commodities brokers shall have the following documents attached:
   a) description of the proposed activities,
   b) drafts of the standard service agreement, filing system, rules of internal control, and administration rules,
   c) organizational and operational regulations that contain the applicant’s decision-making and management structure,
   d) documents to verify compliance with the requirements concerning personnel,
   e) detailed description of the equipment and technical facilities prescribed by this Act and by specific other legislation,
   f) the auditor’s confirmation to certify that the service provider’s informatics system has sufficient facilities to satisfy the requirements laid down in Subsection (4) of Section 92;
   g) description of the accounting policy and accounting system,
   h) the draft regulations concerning its business records,
   i) proof of payment of the administration and service charges specified in specific other legislation,
   j) bylaws (charter document) and any amendments thereto,
   k) a certificate proving that the subscribed capital has been duly paid up or, for companies already operating, proof of their equity capital (with an audited balance sheet report issued 30 days to date),
   l) draft of the contract between the service provider and agent, if applicable,
   m) for branch offices, a certificate from the competent foreign authority for having the necessary authorization to engage in the activities in question,
   n) for branch offices, a description of the decision-making and management hierarchy.

Schedule No. 23 to Act CXX of 2001

Content requirements for information circulars

Information circulars must contain the following:

I

a) Summary page
Name of the issuer, name of the broker/dealer involved, first and last day of subscription or sale, description of the commitments relating to the information circular and the public announcement [declaration of guarantee under Subsections (1) and (2) of Section 15], a statement guaranteeing that the documents listed under Point I. d) of this Schedule are on display in their entirety for review at the issuer’s business address and that the investor has the right to request additional information to supplement the information circular (or a description of the proposed method). The fact that it is a private offering must be expressly noted.

b) Description of the issuer
   1. corporate name,
   2. registered office, business locations,
   3. date of foundation, date and place of registration, number of registration,
   4. subscribed and paid-up capital,
   5. term of operation,
   6. the fiscal year,
   7. place of publication of official announcements,
   8. sphere of activities with an indication of the respective TEÁOR numbers and, if any activity is subject to licensing, a statement on the existence and contents of such a license,
   9. class and type of any previous issues of securities still in circulation, date of subscription and the results of subscription, description of the market position and price trends of the securities still in circulation,
   10. number and designation of shareholders,
   11. list of all shareholders recorded in the share register with a holding of five per cent or more in the company’s capital, with an indication of the percentage of their holding in each type of security,
   12. list of all of the shareholders recorded in the share register who hold ten per cent or more of the issuer’s previously issued securities,
   13. the issuer’s organizational structure,
   14. number of employees,
   15. particulars of executive employees and their professional qualifications, in particular education, trade skills and experience. If any of the executive employees holds any executive office in another business association, it must be indicated as well. Any holdings of the executive employees in the securities issued by the issuer,
   16. dividend entitlements, preferential rights, enforcement of liquidation rules, description of voting rights, rules relating to transferability of shares, seller's and buyer's options, pre-emption rights as well as other limits on negotiability,
   17. the conditions of issue, purchase and repurchase of employees’ shares, if any.

c) Business activity of the issuer
   1. brief overview of the history of the issuer on the development of its business activity for the five business years preceding the date of the offering,
   2. description of principal economic and business operations, services, scope of activities,
   3. major economic indicators (profitability, cost efficiency, liquidity etc.),
   4. market conditions of the sector, market positions, profile of competitors.

d) Financial report and related information
   The information circular shall be accompanied by the annual report covering the last three years prepared in accordance with the Accounting Act (the balance sheet, the profit and loss account and the notes on the accounts, the auditor’s report), the business report concerning the last year, the consolidated balance sheet and profit and loss account for the last year. If established by way of transformation within one year, the statement of holdings shall also be attached.
   The information circular shall contain an overview of the issuer’s accounting policy.
   The information circular shall contain the most recent financial information available since the date of closing the last balance sheet if it was prepared more than six months before. This most recent financial
information must be comparable with the figures of the balance sheet compiled according to the legal provisions on accounting.

e) Lawsuits
A list of any lawsuits in which the issuer is involved, whether as the plaintiff or as the defendant, if the litigated value exceeds ten per cent of its share capital.

f) Issue particulars
1. number, contents and date of the decision for the offering,
2. name and address of underwriters of subscription guarantees, indicating the amount guaranteed for subscription,
3. name of investment service providers participating in the subscription procedure,
4. total amount planned to be raised by the issue and the purpose for which it will be used,
5. name and series and serial numbers of the securities, their class and type, term of maturity, form and denominations, records (deposit in custody), securities codes,
6. quantity of securities issued, their face value, issue price, and formula for determining the issue price, type of offering,
7. interest on the bond, the interest rate (discount) proposed and the means of determining it and, furthermore, if the issuer reserves the right to alter the interest rate during the term of the bond, the rules of changing the interest rate and the manner in which it is to be announced,
8. date of the offering, interest period, date of compounding interest, date and terms of payment of interests, date of repayment of principal, names and addresses of paying locations,
9. buyers invited to subscribe,
10. first and last day and the place and date of subscription or sale,
11. payment terms and conditions, bank account number for making payments,
12. procedure for over- or under-subscription, allocation information,
13. description of the rights attached to the securities, such as pre-emption rights, redemption and repurchase before maturity, any restrictions concerning negotiability, records of bond holders, notices,
14. costs of the subscription procedure,
15. other criteria concerning the securities, the governing law,
16. financial guarantees for performance,
17. draft transcript of the written instrument specified in Subsection (2) of Section 7,
18. rules on the disclosure of information to investors

II

1. If the issuer or its predecessor had been adjudicated in bankruptcy or liquidation within a period of three years preceding the date of the offering, the information circular shall contain information pertaining to such proceedings.
2. If a person has provided guarantees for commitments embodied in securities, the information circular shall contain the information under Paragraphs b)-e) of Part I and in Point 1 above pertaining to the person underwriting such guarantees.
3. The information circular must expressly indicate the most extreme risk factors extant in the issuer’s business activities.

Schedule No. 24 to Act CXX of 2001

Content requirements for information circulars for the issue of bonds by local governments

The information circulars of local governments must contain the following:
a) Summary page
Name of the issuer, name of the broker/dealer involved, first and last day of subscription or sale, description of the commitments relating to the information circular and the public announcement [declaration of guarantee under Subsections (1) and (2) of Section 15], a statement guaranteeing that the documents listed under Paragraph d) of this Schedule are on display in their entirety for review at the issuer’s business address and that the investor has the right to request additional information to supplement the information circular (or a description of the proposed method). The fact that it is a private offering must be expressly noted.

b) The issuer
1. name,
2. address,
3. place of publication of official announcements,
4. class and type of the securities to be issued,
5. class and type and material information of any previous issues of securities still in circulation, list of issues and results of subscription, commitments of the issuing local government relating to the securities issued, description of the market position and price trends of the securities still in circulation,
6. the issuing local government’s organizational structure,
7. number of employees,
8. particulars of elected officers (mayor, deputy mayor, councilman, committee chairman) and of the executive employees (notary, assistant notary, financial officer, director of the field for the purposes of which the securities are issued) and their professional qualifications, in particular education, trade skills, experience etc.

c) Description of the local government
(covers at least three years preceding the date of issue)
1. brief overview of the history of the local government,
2. geographical boundaries, size of area,
3. residential, industrial, commercial, agricultural etc. areas covered in the regional development plan,
4. mandatory and voluntary commitments,
5. history of normative subsidies received in relation to the purpose of the issue, central and local funds available for projects and duties at the time of issue,
6. population of the area governed by the local government, per capita income, statistics concerning age groups, education and skills,
7. important changes in the local government’s area of jurisdiction,
8. unemployment indices,
9. local taxes levied (tourism, community, land, building, local business taxes),
10. funds received from central taxation sources,
11. budgetary information: summary and prospects of the current budget,
12. list of factual income and expenses,
13. if the principal and interest of the bonds are covered by a single designated source, the nature and potential of this source (fees, taxes, other) must also be indicated,
14. restrictions pertaining to debt servicing sources, if any,
15. any legal ramifications imposing limitations on debt servicing,
16. current debts and other tangible debts, overdue debts,
17. overdue receivables,
18. major lawsuits.

d) Financial report and related information
The information circular must be accompanied by a budget report covering the three-year period preceding the date of issue and prepared in accordance with the legal provisions on accounting. The information circular shall contain the most recent financial information available since the date of closing the last balance sheet if it was prepared more than six months before. This most recent financial
information must be comparable with the figures of the balance sheet compiled according to the legal provisions on accounting.

e) Issue particulars

1. number, contents and date of the decision for the offering,
2. name and address of underwriters of subscription guarantees, indicating the amount guaranteed for subscription,
3. name of investment service providers participating in the subscription procedure,
4. total amount planned to be raised by the issue and the purpose for which it will be used,
5. name and series and serial numbers of the securities, their class and type, term of maturity, form and denominations, records (deposit in custody), securities codes,
6. quantity of securities issued, their face value, issue price, and formula for determining the issue price, type of offering,
7. interest on the bond, the interest rate (discount) proposed and the means of determining it and, furthermore, if the issuer reserves the right to alter the interest rate during the term of the bond, the rules of changing the interest rate and the way it is to be announced,
8. date of the offering, interest period, date of compounding interest, date and terms of payment of interests, date of repayment of principal, names and addresses of paying locations,
9. buyers invited to subscribe,
10. first and last day and the place and date of subscription or sale,
11. payment terms and conditions, bank account number for making payments,
12. procedure for over- or under-subscription, allocation information,
13. description of the rights attached to the securities, such as pre-emption rights, redemption and repurchase before maturity, any restrictions concerning negotiability, records of bond holders, notices,
14. costs of the subscription procedure,
15. other criteria concerning the securities, the governing law,
16. financial guarantees for performance,
17. draft transcript of the written instrument specified in Subsection (2) of Section 7, or a specimen of printed securities,
18. rules on the disclosure of information to investors.

Schedule No. 25 to Act CXX of 2001

Conformity with the Laws of the European Union

This Act contains regulations that may be approximated with the following legal regulations of the European Communities:


