

Self-assessment based on IOSCO principles

2006

	<i>Fully</i>	<i>Broadly</i>	<i>Partly</i>	<i>Not</i>
		<i>Implemented</i>		
Principle 1 The responsibilities of the regulator should be clear and objectively stated.	<input checked="" type="checkbox"/>			
Principle 2 The regulator should be operationally independent and accountable in the exercise of its powers and functions.	<input checked="" type="checkbox"/>			
Principle 3 The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.		<input checked="" type="checkbox"/>		
Principle 4 The regulator should adopt clear and consistent regulatory processes.		<input checked="" type="checkbox"/>		
Principle 5 The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.	<input checked="" type="checkbox"/>			
Principle 6 The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets.	<input checked="" type="checkbox"/>			
Principle 7 SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	<input checked="" type="checkbox"/>			
Principle 8 The regulator should have comprehensive inspection, investigation and surveillance powers.	<input checked="" type="checkbox"/>			
Principle 9 The regulator should have comprehensive enforcement powers.	<input checked="" type="checkbox"/>			
Principle 10 The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	<input checked="" type="checkbox"/>			
Principle 11 The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts.	<input checked="" type="checkbox"/>			
Principle 12 Regulators should establish information	<input checked="" type="checkbox"/>			

sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.				
Principle 13 The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.			<input checked="" type="checkbox"/>	
Principle 14 There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.	<input checked="" type="checkbox"/>			
Principle 15 Holders of securities in a company should be treated in a fair and equitable manner.	<input checked="" type="checkbox"/>			
Principle 16 Accounting and auditing standards should be of a high and internationally acceptable quality.		<input checked="" type="checkbox"/>		
Principle 17 The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.		<input checked="" type="checkbox"/>		
Principle 18 The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.	<input checked="" type="checkbox"/>			
Principle 19 Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.	<input checked="" type="checkbox"/>			
Principle 20 Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.	<input checked="" type="checkbox"/>			
Principle 21 Regulation should provide for minimum entry standards for market intermediaries.	<input checked="" type="checkbox"/>			
Principle 22 There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.	<input checked="" type="checkbox"/>			
Principle 23 Market intermediaries should be required	<input checked="" type="checkbox"/>			

to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.				
Principle 24 There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.		<input checked="" type="checkbox"/>		
Principle 25 The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.		<input checked="" type="checkbox"/>		
Principle 26 There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.	<input checked="" type="checkbox"/>			
Principle 27 Regulation should promote transparency of trading.	<input checked="" type="checkbox"/>			
Principle 28 Regulation should be designed to detect and deter manipulation and other unfair trading practices.	<input checked="" type="checkbox"/>			
Principle 29 Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.	<input checked="" type="checkbox"/>			
Principle 30 Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.	<input checked="" type="checkbox"/>			

Principle 1 The responsibilities of the regulator should be clear and objectively stated.

1. Are the regulator's responsibilities, powers and authority:
 - a) Clearly defined and transparently set out, preferably by law, and in the case of powers and jurisdiction, enforceable?
 - b) If the regulator can interpret its authority, are the criteria for interpretation clear and transparent?
 - c) Is the interpretative process transparent enough to preclude situations in which an abuse of discretion can occur?
2. When more than one domestic authority is responsible:
 - a) Does the legislation ensure that any division of responsibility avoids gaps or inequities in regulation?
 - b) Is substantially the same type of conduct generally subject to consistent regulatory requirements?
3. When more than one domestic authority is responsible:
 - a) Are there effective arrangements for cooperation and communication of information between responsible authorities through appropriate channels?
 - b) Are responsible authorities required to cooperate and communicate in areas of shared responsibility?
 - c) Are cooperation and communication occurring between responsible authorities without significant limitations?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

The responsibilities, powers and authority of the HFSA are clearly defined and transparently set out under the provisions of Act CXXXIV 1999 on Hungarian Financial Supervisory Authority.

The tasks and duties of the HFSA have to be prescribed on the strength of an Act or other legal instrument (regulation) adopted by authorization of an Act. The Supervisory Authority shall not accept any instructions concerning such tasks and duties, other than the supervisory powers and authorizations specified in the HFSA Act concerning rights of the Minister of Finance (see below).

According to Section 4 of Act CXXXIV 1999 HFSA's decisions and resolutions shall not be altered, overruled or overturned under supervisory competence and shall not be subject to appeal through administrative channels. Any person whose right or lawful interest is injured by a conclusive decision of the Supervisory Authority or by its refusal to commence the proceeding may file for court action requesting a judicial review of the decision in question. Implementation of the decision shall not be suspended on account of the said judicial review. Damage claims may be filed against the Supervisory Authority in connection with any resolutions adopted within its jurisdiction, if the Supervisory Authority's resolution - or its failure to issue one - is in violation of the law and thereby directly responsible for the damages incurred.

It has to be made clear that the Hungarian Financial Supervisory Authority (HFSA) has the right to comment on statutory instruments under preparation concerning the financial sector

and submits proposals for the adoption of such statutory instruments but it doesn't have the right to issue decrees and regulations within its sphere of activity. The Ministry of Finance is vested with this right.

The recent modification of Act CXXXIV 1999 on Hungarian Financial Supervisory Authority (in force from 1st November, 2005) defines the market supervision procedure as a new authority procedure of the HFSA beside the foregoing licensing and inspection. Complaint management is a not fully authority procedure of the Supervisory Authority.

1.b)

The HFSA may disclose recommendations, methodology guides and directives for the supervised market participants and brings out supervisory understanding(s) as required. However, criteria for the formers are not enough clear and transparent. According to Section 378 of Act CXX of 2001 on the Capital Market, within the scope of its responsibilities, the HFSA shall resolve, where necessary, any disputes regarding whether an activity is considered an investment service, an auxiliary investment service, a commodity exchange service, investment fund management, exchange market activity, central depository activity, or clearing and settlement activity under the provisions of this Act.

1.c)

Contents and public appearance of HFSA's recommendations, methodology guides, directives and supervisory understanding assure the avoidance of situations in which an abuse of discretion can occur.

2.

Hungarian Acts make the competences of the relevant authorities and the fields of cooperation for the HFSA with the Ministry of Finance (MoF), the National Bank of Hungary (NBH) and the Hungarian Competition Authority (in the sphere of market supervision, mergers and acquisitions) clear. These rules ensure the avoidance of gaps or inequities concerning responsibilities. The cooperation among authorities mentioned before focuses on issues relating to authorization, and the relevant regulatory requirements are consistent.

3.

In the respect of practical questions, special agreements such as Memoranda of Understanding help competent authorities to make arrangements for cooperation and communication effective. For example the MoU between the HFSA and the NBH deals with practical issues of authorization, penalties and cooperation in the fields of regulation, inspection, emergency and information. The trilateral MoU among the authorities mentioned before and the MoF denotes the foundation and the operation of a committee in order to efficient co-ordination of financial stability tasks. The responsible authorities required to and can cooperate and communicate with each-other without significant limitations.

Principle 2 The regulator should be operationally independent and accountable in the exercise of its powers and functions.

Independence

1. Does the securities regulator have the ability to operate on a day-to-day basis without:
 - a) External political interference?
 - b) Interference from commercial or other sectoral interests?
2. Where particular matters of regulatory policy require consultation with, or even approval by, a government minister or other authority:
 - a) Is the consultation process established by law?
 - b) Do the circumstances, in which consultation is required, exclude decision making on day-to-day technical matters?
 - c) Are the circumstances in which such consultation or approval is required or permitted clear and the process sufficiently transparent, or the failure to observe procedures and the regulatory decision or outcome subject to sufficient review, to safeguard its integrity?
3. Does the securities regulator have a stable and continuous source of funding sufficient to meet its regulatory and operational needs?
4. Are the regulatory authority, the head and members of the governing body of the regulatory authority, as well as its staff, accorded adequate legal protection for the bona fide discharge of their governmental, regulatory and administrative functions and powers?
5. Are the head and governing board of the regulator subject to mechanisms intended to protect independence, such as: procedures for appointment; terms of office; and criteria for removal?

Accountability

6. With reference to the system of accountability for the regulator's use of its powers and resources:
 - a) Is the regulator accountable to the legislature or another government body on an ongoing basis?
 - b) Is the regulator required to be transparent in its way of operating and use of resources and to make public its actions that affect users of the market and regulated entities, excluding confidential or commercially sensitive information?
 - c) Is the regulator's receipt and use of funds subject to review or audit?
7. Are there means for natural or legal persons adversely affected by a regulator's decisions or exercise of administrative authority ultimately to seek review in a court, specifically:
 - a) Does the regulator have to provide written reasons for its material decisions?
 - b) Does the decision-making process for such decisions include sufficient procedural protections to be meaningful?
 - c) Are affected persons permitted to make representations prior to such a decision being taken by a regulator in appropriate cases?
 - d) Are all such decisions taken by the regulator subject to a sufficient, independent review process, ultimately including judicial review?
8. Where accountability is through the government or some other external agency, is confidential and commercially sensitive information subject to appropriate safeguards to prevent inappropriate use or disclosure?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

In May 2004, new legislation strengthened the accountability of the HFSA and its oversight by the Minister of Finance.^[1] The amendments to the HFSA Act included provisions empowering the Ministry to regularly monitor the HFSA's operations, including through bi-annual information reports on the HFSA's activities and general trends from the chairman of the HFSA's Board. For his part, the Minister is legally obliged to analyze these reports and, if necessary, to request more information and to order the chairman of the Board of the HFSA "to eliminate the existing discrepancies, if any".

Since the Finance Minister carries the political responsibility for the operation of the financial system (with a need to answer questions/interpellations in Parliament), it is appropriate that he be provided with information on the financial markets and important individual cases which could have systemic effects. Equally, it is appropriate that the chairman should inform the Minister about developments of this kind. However, the Minister's power to order the elimination of discrepancies in the HFSA's everyday operations is of some concern as the meaning of "discrepancies" is not clear.

1.b)

Yes, the HFSA remains forbidden by law to accept instructions.

2.a)

Yes.

Apart from the inspectorial competence of the Minister of Finance mentioned above (included also approving the operational rules and regulations of the HFSA), where so prescribed by law, the Supervisory Authority has to consult with or obtain the consent of the National Bank of Hungary prior to issuing or revoking authorizations and licenses (according to Act CXX of 2001 on the Capital Market in case of clearing houses).

2.b)

No

2.c)

Yes. The procedural rules (Under Act CXXXIV 1999 on Hungarian Financial Supervisory Authority, Act CXL of 2004 on General Rules of Administrative Procedures and Utilities (in force from 1st November, 2005) and the sectoral regulations) assure the integrity of regulatory policy of HFSA.

3.

There is no evidence that the increased oversight role of the MoF has led to any interference in the HFSA's operational autonomy. The HFSA continues to enjoy budgetary independence and to receive adequate financial resources for its activities through the imposition of supervision levies/ fees. Financial autonomy has also been increased by a new ability to build up reserves. Nevertheless, a formal clarification of the modalities of the MoF's involvement,

^[1] The MOF's oversight responsibility stems from the requirement that the Ministry protect the financial equilibrium of the national economy, which in turn arises from the responsibility for economic policy.

either via an amendment to the Act or a supporting document such as a Memorandum of Understanding, could enhance policy effectiveness and transparency.

4.

Damage claims may be filed against the Supervisory Authority in connection with any resolutions adopted within its jurisdiction, only if the resolution of the HFSA - or its failure to issue one - is in violation of the law and thereby directly responsible for the damages incurred. Furthermore, the Law on Civil Servants accords adequate legal protection to the governing body and the staff of the HFSA for the *bona fide* discharge of their governmental, regulatory and administrative functions.

5.

The chief executives of the HFSA are the Director General and the two Deputies of the Director General and the Supervisory Authority is governed by the Board consisting of maximum five members. Procedures for appointment, terms of office and criteria for removal concerning these persons are defined under the provisions of Act CXXXIV 1999 on Hungarian Financial Supervisory Authority.

The Director General and the Deputies of the Director General are appointed - for terms of six years - and removed by the Prime Minister. Employer's rights in respect of the Director General and his/her deputies, appointment and removal excepted, shall be exercised by the Chairman of the Board.

The mandate of the Director General and his/her deputies shall terminate upon:

- a) expiration of the term of office;
- b) resignation;
- c) dismissal;
- d) any conflict of interest;
- e) death.

Resignation shall be submitted in writing to the Prime Minister.

The Director General and his/her deputies

- a) may be relieved from office if unable to discharge his tasks and duties for reasons beyond his/her control;
- b) shall be relieved from office if he no longer fulfils the conditions required for the performance of his duties for reasons within his/her control, if engaged in any severe breach of obligations, if convicted of a criminal offence, or if he/she becomes unworthy of this office for any other reasons or if engaged in any conduct jeopardizing the HFSA's operations.

The Chairman of the Board is nominated by the Prime Minister and is elected - for a term of six years - and removed by Parliament. The nominated person shall be interviewed/heard by the competent parliamentary committee. Other members of the Board are nominated by the Prime Minister - upon hearing the opinion of the Chairman of the Board - and appointed by the President of the Republic for a term of six years, and also removed by him.

Employer's rights in respect of members of the Board, with the exceptions defined before, shall be exercised by the Prime Minister on behalf of the Government.

The mandate of the Chairman of the Board shall terminate upon:

- a) expiration of the term of office;
- b) resignation;
- c) death;
- d) discharge by Parliament.

The mandate of members of the Board shall terminate upon:

- a) expiration of the term of office;
- b) resignation;
- c) death;
- d) dismissal by the President of the Republic.

Resignation shall be submitted in writing to the Speaker of Parliament and to the Prime Minister.

Parliament shall discharge the Chairman of the Board, and the President of the Republic shall - by recommendation of the Prime Minister - dismiss a member of the Board if:

- a) unable to attend to his duties for any continuous period of over ninety days;
- b) he fails to eliminate the conflict of interest under the law;
- c) convicted of a criminal offence following a criminal proceeding, or if he becomes unworthy of this office for any other reason;
- d) he fails to perform his duties for reasons within his control.

6.a)

Yes, the supervisory competence of the Minister of Finance includes monitoring the HFSA's operations, such as to receive reports from the chairman of the Board and to order him to eliminate the existing discrepancies, if any. Furthermore, copies of bi-annual reports are sent to the relevant Parliamentary Committees and state bodies.

6.b)

In addition to the oversight exercised by the Minister of Finance, the chairman of the Board has to report annually on the HFSA's operations - via the Minister of Finance - to the Government and the relevant parliamentary committee, and shall concurrently publish an account of its operations. In addition, the chairman sends (by the 15th day following the end of the half-year) copies of his reports concerning the Supervisory Authority's operations and on the general trends concluded upon the supervision of financial organizations to the Minister of Finance. The Minister shall analyze this report and shall request additional information when necessary.

The HFSA also publishes an abbreviated quarterly report that describes the operation of the financial sector but does not detail the operation of the Supervisory Authority.

With due respect to banking, securities, funds, insurance and business secrets, in order to protect the interests of financial and capital market participants, investors, depositors, insurance policy holders and fund members, the HFSA shall routinely publish the following on its website:

- a) a list of persons licensed by the Supervisory Authority to operate,
- b) a list of foreign supervisory authorities with which the HFSA has entered into cooperation agreements on the basis of mutual recognition,
- c) the fact of a remedy procedure against its resolution or decision,
- d) a final judgment concerning the above mentioned remedy procedure.

The HFSA has the right to publish its resolutions - in part or in whole - on its website or in any other manner deemed appropriate.

6.c)

Apart from the rights of the Minister of Finance mentioned above, the State Auditing Office (under Act on SAO) and the Governmental Inspectorial Office (in accordance of a governmental decree) have the power to review the HFSA's receipt and use of funds.

7.a)

Yes, the HFSA has to provide written reasons for its material decisions.

7.b)

The procedural rules assure the meaningful decision-making process for decisions mentioned above.

7.c)

Yes, affected persons are permitted to make representations prior to such a decision being taken by the HFSA in appropriate cases.

7.d)

Yes. Under Act CXXXIV 1999, any person whose right or lawful interest is injured by a conclusive decision of the Supervisory Authority or by its refusal to commence the proceeding may file for court action requesting a judicial review of the decision in question. Furthermore, it is possible also to appeal against the judgment of the court of first instance.

8.

In practice, no confidential and commercially sensitive information is provided to the government or some other external agencies. Anyway, the Hungarian laws (Act LXIII of 1992 on the Protection of Personal Data and the Disclosure of Information of Public Interest and other specific rules) - including also the possibility of criminal sanction – ensure the framework for adequate treatment of this kind of information.

Principle 3 The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.

1. Are the powers and authorities of the regulator sufficient, taking into account the nature of a jurisdiction's markets and a full assessment of these Principles to meet the responsibilities of the regulator(s) to which they are assigned?
2. With regards to funding:
 - a) Does the regulator's funding reflect the needs of the regulator in supervising a given market, taking into account the size, complexity and types of functions subject to its regulation, supervision or oversight?
 - b) Can the regulator affect the operational allocation of resources once funded?
3. Does the level of resources recognize the difficulty of attracting and retaining experienced and skilled staff?
4. Does the regulator ensure that its staff receives adequate ongoing training?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
Yes. According to the law the HFSA has the power of licensing, supervision, inspection and enforcement concerning the market participants under its authority.

2.a)
Supervisory fees payable by participants of capital markets are ruled according to Chapter LIII of Act CXX 2001 on the capital market, in part taking into account the size and types of functions. However changing in this field would be necessary, the HFSA initiated the elaboration of a new supervisory fee structure.

2.b)
The HFSA shall dispose of the proceeds from fees and charges independently, and shall dispose of the sums of penalties to the extent laid down in specific other legislation. The Supervisory Authority shall use its revenues, apart from those arising from the penalties, to cover its operating expenses. Such revenues may not be used for any other purposes. The HFSA may tie up some its revenues - other than those from penalties - not to exceed fifteen per cent of the actual revenues for the year in reserve. This provision may be used during the following years solely for financing operating expenses as specified above, and may not be diversified for other purposes.

3.
No. There can be deficiencies in certain segments.

4.
The Board – the strategic body of the HFSA – has just recently elaborated the strategy concerning staff training needs up to 2010. In this process the Board identified some key areas to be developed. These focus points are the following: appropriate knowledge of foreign languages (first of all English), fundamental knowledge of capital requirements for banks and

insurers (Basel Recommendations and its implementing EU directives, Solvency directives) and their consequences in the work of the Supervisory Authority, and technical skills to improve the level of supervision.

Principle 4 The regulator should adopt clear and consistent regulatory processes.

Clear and Equitable Procedures

1. Is the regulator subject to reasonable procedural rules and regulations?
2. Does the regulator:
 - a) Have a process for consultation with the public, or a section of the public, including those who may be affected by the policy, for example, by publishing proposed rules for public comment, circulating exposure drafts or using advisory committees or informal contacts?
 - b) Publicly disclose and explain its policies, not including enforcement and surveillance policies, in important operational areas, such as through interpretations of regulatory actions, setting of standards, or issuance of opinions stating the reasons for regulatory actions?
 - c) Publicly disclose changes and reasons for changes in rules or policies?
 - d) Have regard, in the formulation of policy, to the costs of compliance with regulation?
 - e) Make all rules and regulations available to the public?
 - f) Make its rulemaking procedures readily available to the public?
3. In assessing procedural fairness:
 - a) Are there rules in place for dealing with the regulator that are intended to ensure procedural fairness?
 - b) Is the regulator required to give reasons in writing for its decisions that affect the rights or interests of others?
 - c) Are all material actions of the regulator in applying its rules subject to review?
 - d) Are such decisions subject to judicial review where they adversely affect legal or natural persons?
 - e) Are the general criteria for granting, denying, or revoking a license made public, and are those affected by the licensing process entitled to a hearing with respect to the regulator's decision to grant, deny, or revoke a license?

Transparency and Confidentiality

4. If applicable, are procedures for making reports on investigations public consistent with the rights of individuals, including confidentiality and data protection?

Investor Education

5. Does the regulator play an active role in promoting education in the interest of protecting investors?

Consistent Application

6. Are the regulator's exercise of its powers and discharge of its functions consistently applied?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1. Yes, the HFSA operates under the provisions of Act CXL of 2004 on the General Rules for Administrative Procedures and Utilities with the differences provided for by the HFSA Act and by Act CXX of 2001 on the Capital Market.

2.a)

One of the significant aims of the HFSA is not only to supervise the affected market participants, but to have direct consultative contact with them. In the framework of consultations, employees of the Supervisory Authority transmit update information mainly in connection with changing of the law and application of it.

2.b)c)e)

Resolutions -with the exception of those which may affect secrecy – and recommendations, methodology guides, directives and inspectorial stands of the HFSA, along with changes of them and the material laws to the Supervisory Authority, are publicly available on its web site.

2.d)

No

2.f)

Not applicable

3.a)

Yes, Act CXXXIV 1999 on Hungarian Financial Supervisory Authority, the Act CXL of 2004 on the General Rules for Administrative Procedures and Utilities and Act CXX of 2001 on the Capital Market include rules, which ensure procedural fairness of the Supervisory Authority.

3.b)

Yes, according to procedural rules, all decision has to comprise a written part for provision and another for argumentation.

By the law, with due respect to banking, securities, funds, insurance and business secrets; the HFSA has the right to publish its resolutions - in part or in whole – on its website or in any other manner deemed appropriate in order to protect the interests of financial and capital market participants, investors, depositors, insurance policy holders and fund members.

In practice, the HFSA publishes its resolutions -with the exception of those which may affect secrecy– also on its website.

3.c)

The possibility of reviewing is established in the case of all material actions of the HFSA.

3.d)

Any person whose right or lawful interest is injured by a conclusive decision of the Supervisory Authority or by its refusal to commence the proceeding may file for court action requesting a judicial review of the decision in question. Damage claims may be filed against the Supervisory Authority in connection with any resolutions adopted within its jurisdiction, if the resolution of the HFSA - or its failure to issue one - is in violation of the law and thereby directly responsible for the damages incurred.

3.e)

Act CXX of 2001 on the Capital Market defined the general criteria for granting, denying or revoking a license in the capital market. The affected market participants are entitled to a hearing with respect the licensing process of the HFSA.

4.

Not applicable.

5.

Yes, the HFSA play a very active role in this field. The Customer Service of the Authority was set up with the purpose to provide information to customers concerning questions about its own work and services as well as the services of financial institutions operating in Hungary. The Authority receives customer complaints and seeks to answer customers' questions, however it does not provide financial or investment advice and cannot disclose information bound by secrecy. Information published on the web site of the HFSA serve the purpose of protecting investors as well.

6.

Yes.

Principle 5 The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.

1. Are the staff of the regulator required to observe legal requirements or a "Code of Conduct" or other written guidance, pertaining to:
 - a) The avoidance of conflicts of interest?
 - b) Restrictions on the holding or trading in securities subject to the jurisdiction of the regulatory authority and/or requirements to disclose financial affairs or interests?
 - c) Appropriate use of information obtained in the course of the exercise of powers and the discharge of duties?
 - d) Observance of confidentiality and secrecy provisions and the protection of personal data?
 - e) Observance by staff of procedural fairness in performance of their functions?
2. Are there:
 - a) Processes to investigate and resolve allegations of violations of the above standards?
 - b) Legal or administrative sanctions for failing to adhere to these standards?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

Yes. According to the provisions of Act CXXXIV 1999, the Hungarian Financial Supervisory Authority shall not enter into a civil service legal relationship with a prospective officer if it would place such officer in direct contact with a close relative who is already employed by the HFSA and if such contact would affect the Supervisory Authority's management (control), supervision or accounting.

With the exception laid down in Act on Credit Institutions and Financial Enterprises, officers of the HFSA shall not enter into membership, employment, or any other work-related legal relationship with any financial organization or the National Deposit Insurance Fund or the Investor Protection Fund; nor may they be executive officers or supervisory board members of such. Membership in a voluntary mutual insurance fund or private pension fund or in an insurance association shall not be deemed a violation of this prohibition.

1.b)c)

Under Act CXXXIV 1999:

Officers of the HFSA may not, unless by inheritance, acquire

- a) ownership in a financial organization,
- b) securities, with the exception of government bonds foreign and domestic, certificates of deposit, investment certificates or private securities,
- c) other means of investment not listed in Paragraph b).

Officers of the HFSA shall not have any ownership share in a financial organization, and upon appointment the officer shall notify the employer of any existing ownership shares in any financial organization as well as any and all investment assets in his possession that could not be acquired after his appointment.

When appointed, an officer of the HFSA shall - within a period of three months of his appointment or acquisition - alienate his ownership shares, securities and all other investment assets, as defined above, acquired prior to his appointment or by inheritance.

Officers of the HFSA shall immediately notify the employer if a close relative living in the same household has acquired ownership shares, securities or any other investment assets, as defined above, after his appointment.

Officers of HFSA may not participate in preparing or passing resolutions pertaining to the organization affected until the prescribed obligation has been fulfilled, or in the case described above.

At the time they are appointed, officers of HFSA must make a written declaration concerning any close relative living in the same household who is employed by, holds an executive office in, has another work-related legal relationship with a financial organization; and any such relationship established subsequent to the appointment shall be reported to the employer immediately. Such an officer shall not be entitled to participate in preparing or passing any resolution concerning the financial organization in which his close relative living in the same household maintains any of the above-specified legal relationships.

Officers of the HFSA shall be entitled to acquire investment certificates and/or privately issued securities and/or mortgage bonds in a manner regulated by the employer.

1.c)d)

According to Section 11 of Act CXXXIV 1999 currently employed individuals, who are engaged in any other work-related legal relationship with the HFSA on consignment or otherwise, shall maintain confidentiality with regard to all bank secrets, securities secrets, fund and insurance secrets which they obtain in the course of discharging their duties at the HFSA. This obligation to maintain confidentiality shall remain in effect following the termination of their employment or consignment at the HFSA.

The individuals referred to above shall maintain confidentiality with regard to all of the information, data and facts of which they gained knowledge in connection with supervisory activities and which the HFSA is not legally obliged to disclose to the public or other authorities, nor shall they use or disclose them without proper authorization.

1.e)

Yes, Act CXXXIV 1999 on Hungarian Financial Supervisory Authority, the new Act CXL of 2004 on the General Rules for Administrative Procedures and Utilities and Act XXII of 1992 on the Labor Code include rules, which ensure procedural fairness of the Supervisory Authority's staff.

2.a)

According to the Ethical Code for the staff of the HFSA, in case of suspicion about infringement of ethical rules the Ethical Commission of the HFSA makes necessary arrangements. Concerning the law, Act XXIII of 1992 on Civil Servants includes the adequate rules.

2.b)

Sanctions for failing to adhere to the relevant standards are defined under Act IV of 1978 on the Criminal Code, Act XXIII of 1992 on Civil Servants. Act IV of 1959 on the Civil Code of the Republic of Hungary contains rules in relation to compensatory liability.

Principle 6 The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets.

Performance of Functions of SRO

Are there organizations that:

- a) Establish rules of eligibility that must be satisfied in order for individuals or firms to participate in any significant securities activity?
- b) Establish and enforce binding rules of trading or business conduct for individuals or firms engaging in securities activities?
- c) Establish disciplinary rules and/or conduct disciplinary proceedings, which have the potential to impose enforceable fines, or other penalties, or to bar or suspend a legal or natural person from participating in securities activities or professional activities related to securities activities?

An affirmative response to Questions 1(a), 1(b) or 1(c) requires assessment of Principle 7.

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

a.)

Yes. There are two organizations in Hungary should be classified as an SRO: the exchange on the Hungarian market: Budapest Stock Exchange (hereinafter BSE) and the Central Clearing House and Depository (hereinafter KELER). /Earlier there were two exchanges, but BSE acquired the controlling stake of Budapest Commodity Exchange (hereinafter BCE) at October 2005. and from 1. November 2005. takes over the activity of BCE too. It is to be expected that the new entity will be named Budapest Stock Exchange (BSE). For that reason in what follows we write about only the BSE, but the regulation was the same for BCE too/. BSE is a self-governing, self-regulating exchange, earlier owned by its members, today a joint stock company.

KELER is the only clearing and settlement institution in Hungary, which is a company limited by shares. KELER settles all the spot transactions and derivatives traded at the exchange and businesses on government securities dealt on the OTC market. It was declared as national depository by the predecessor HFSA in 1995; moreover, the US SEC accepted it as a foreign depository according to the point 17F-5 of the US Securities Act. The functions and duties of KELER are set in the CMA too, and the HFSA licenses the operation of it.

According to CMA both of its have been given the power and responsibility to establish rules that must be satisfied in order for individuals and firms to participate in any significant securities activity.

b.)

Yes. As we mentioned above, BSE and KELER have their own internal regulations based on the explicit requirements of the CMA. In these internal regulations they regulate the trading

and business conduct of firms and individuals engaging in securities activity. These rules are binding for all members of SROs, and SROs have the power to enforce its.

c.)

Yes. Both the exchange and KELER established disciplinary rules and conduct disciplinary proceedings in their internal regulations. According to these rules and proceedings, both of them may apply those measures and sanctions mentioned in this Question, i.e. sanctions to be applied can be as follows: warning, fine, or in case of KELER additional financial collateral, suspension the right of trading or clearing, exclusion (in case of serious and repeated breach), or in case of KELER withdraw the right of membership (by dissolving the contract on account).

Principle 7 SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

Authorization or Delegation Subject to Oversight

1. As a condition to authorization, does the legislation or the regulator require the SRO to demonstrate that it:
 - a) Has the capacity to carry out the purposes of governing laws, regulations and SRO rules consistent with the responsibility delegated to the SRO, and to enforce compliance by its members and associated persons subject to those laws, regulations and rules?
 - b) Treats all members of the SRO, applicants for membership and similarly situated market participants subject to its rules in a fair and consistent manner?
 - c) Develops rules that are designed to set standards for its members and to promote investor protection?
 - d) Submits to the regulator its rules, and any amendments thereto, for review and/or approval, as the regulator deems appropriate, and ensures that the rules of the SRO are consistent with the public policy directives established by the regulator?
 - e) Cooperates with the regulator and other domestic SROs to investigate and enforce applicable laws, regulations and rules?
 - f) Imposes appropriate sanctions for non-compliance with its own rules?
 - g) Where applicable, e.g., a mutual organization, assures a fair representation of members in selection of its board of directors and administration of its affairs?
 - h) Avoids rules that may create anti-competitive situations as defined in the Explanatory Note?
 - i) Avoids using the oversight role to allow any market participant unfairly to gain an advantage in the market?

Oversight

2. Does the regulator:
 - a) Have in place an effective on-going oversight program of the SRO, which may include:
 - i. Inspection of the SRO;
 - ii. Periodic reviews;
 - iii. Reporting requirements;
 - iv. Review and revocation of SRO governing instruments and rules; and
 - v. The monitoring of continuing compliance with the conditions of authorization or delegation.
 - b) Retain full authority to inquire into matters affecting the investors or the market?
 - c) Take over an SRO's responsibilities where the powers of an SRO are inadequate for inquiring into or addressing particular misconduct or allegations of misconduct or where a conflict of interest necessitates it?

Professional Standards Similar to those Expected of a Regulator

3. Does the law or regulator require the SRO to follow similar professional standards of behavior as would be expected of a regulator:
 - a) On matters relating to confidentiality and procedural fairness?

- b) On the appropriate use of information obtained in the course of the SRO's exercise of its powers and discharge of its responsibilities?

Conflicts of Interest

4. Does the law or regulator assure that potential conflicts of interest at the SRO are avoided or resolved?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

Yes. As a condition to authorization the CMA requires SROs to determine its own rules, in which they have to demonstrate their capacity to carry out the purposes of governing laws, regulations and their own rules as well as the capacity to enforce compliance by its members and associated persons subject to those laws, regulations and rules.

1.b)

Yes. According to the CMA the internal regulations of the exchange and KELER may not contain any provisions discriminating against their members and applicants for membership, or create anti-competitive situations, and they may not use their oversight role to allow any market participant unfairly to gain advantage in the market. Such practices are forbidden according to the CMA and HFSA require the SROs avoid using such rules and situations.

1.c)

Yes. The regulations of SROs set standards for its members (e.g. Bylaw of KELER, or Regulation on Section Membership of BSE) and are designed to secure the safe functioning of their members' activities on the capital market and protecting the investors by this.

1.d)

Yes. All the regulations of the SROs need the approval of the HFSA. These rules are approved by the board of directors previously; in this body the HFSA is also represented. On the basis of the CMA the amendments are also subject to prior approval. HFSA has the power to examine these rules in accordance with not only the laws, but the public policy directives.

1.e)

Yes. Both KELER and the exchange have their own supervisory activity within this they may conduct investigations. The BSE has signed an agreement with the HFSA in which the BSE binds itself to notify the HFSA immediately after discovering breaches of relevant law. In such cases the exchange can conduct its own investigation, a joint investigation with the HFSA or refer the case to the HFSA. Besides this, exchange may perform joint on-site audits with KELER too.

These obligations are mentioned explicitly in internal rules of BSE, and the same rules are in the KELER's internal rules also.

1.f)

Yes. In its internal rules, the exchange and the KELER impose sanctions for non compliance with its rules. Sanctions are follows: warning, fine, or in case of KELER additional financial collateral, suspension the right of trading or clearing, exclusion (in case of serious and repeated breach), or in case of KELER withdraw the right of membership (by dissolving the contract on account).

1.g)

Not applicable. In Hungary the SROs are joint-stock companies; the group of owners differs from the group of members. As the owners elect the members of the boards of directors, the HFSA has not power to require the fair representation of members in it, and nor in the administration of its affairs (in case of KELER, according to CMA, owners of a clearing corporation may only be the National Bank of Hungary (NBH), an exchange, investment enterprises and commodities brokers, credit institutions, clearing houses and a financial holding company. Nowadays the owners of KELER are the BSE, BCE and NBH). But there are different committees near the boards of directors, like trading committee and listing committee consist of representatives of market, and professional committees, like settlement committee and index committee, and the investor representative. According to CMA board of directors must consult the committees before approving rules (the same is true for KELER with the exception that KELER's board shall consult with the stock exchange, exactly with the settlement committee, and not the clearing members).

1.h), 1.i)

Yes. See the answer in point 1/b.

2.a)

Yes. The SROs are supervised institutions. That means the HFSA have in place an on-going oversight program of the SRO. The HFSA may conducts on-site and off site comprehensive review on a regular basis (or if it necessary), collects data from them on a regular basis, reviews and revocations of SROs governing instruments and rules and has its representative on the meeting of boards of directors.

2.b)

Yes. The HFSA is entitled to have access to any documents and registers of the SROs, the members of the exchange and the brokers related to trading on the exchange. Those mentioned above shall deliver their documents or data concerning their activity to the HFSA, on request. The rights and liabilities of the HFSA in respect of inquiry are regulated by the governing law (CMA), which has a primacy over the internal regulations of the SROs. Market surveillance and investor protection are among the key goals of the HFSA.

2.c)

Yes. Both KELER and the exchange have their own supervisory activity within this they may conduct investigations, but where their power is inadequate or conflict of interest may emerge HFSA may take over the SROs responsibilities, and SROs must refer the case to the HFSA.

3.a), 3.b)

Yes. According to the law, HFSA requires the SROs to follow similar professional standards of behavior as would be expected of it. The general provisions of the CMA on business, banking and securities secrecy relates to SROs as well, but also the internal rules of the SROs have provisions relating on confidentiality and procedural fairness.

4.

Yes. Both the CMA and the internal rules of SROs explicitly regulate the cases where conflict of interest emerges.

Principle 8 The regulator should have comprehensive inspection, investigation and surveillance powers.

1. Can the regulator inspect a regulated entity's business operations, including its books and records, without giving prior notice?
2. Can the regulator obtain books and records and request data or information from regulated entities without judicial action, even in the absence of suspected misconduct, in response to:
 - a) A particular inquiry?
 - b) On a routine basis?
3. Does the regulator have the power to supervise its authorized exchanges and regulated trading systems through surveillance?
4. Does the regulator have record-keeping and record retention requirements for regulated entities?
5. Are regulated entities required:
 - a) To maintain records concerning client identity?
 - b) To maintain records that permit tracing of funds and securities in and out of brokerage and bank accounts related to securities transactions?
 - c) To put in place measures to minimize potential money laundering?
6. Does the regulator have the authority to determine or have access to the identity of all customers of regulated entities?
7. Where a regulator out-sources inspection or other regulatory enforcement authority to an SRO or a third party:
 - a) Does the regulator supervise the outsourced functions of third parties?
 - b) Does the regulator have full access to information maintained or obtained by the third parties?
 - c) Can the regulator cause changes/improvements to be made in the third parties' processes?
 - d) Are these third parties subject to disclosure and confidentiality requirements that are no less stringent than those applicable to the regulator?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
The HFSA on the basis of an inspection plan conducts comprehensive inspections at investment service providers, commodities brokers, investment fund managers, the exchange and clearing corporations.
2.
The HFSA gives prior notice of the inspection except if the notice would endanger the success of the process.
- 3.

The HFSA can have access to any data, report, statement, accounting records, regulations, and documents that relate to the activities of the supervised entity. In addition, the scope of daily, weekly, monthly, quarterly and annual reporting are defined.

The HFSA has the power to supervise the exchanges and regulated trading systems. The HFSA is allowed to enter the venue where exchange transactions are conducted and to inspect the activity.

4.

Investment service providers and commodities brokers must keep records of all dealings. Regulated entities must identify the client.

5.

The securities account must contain at all times data that identifies the account holder. Therefore the account holder's name cannot be replaced by a number or a code, a pseudonym or any other reference suitable to conceal the identity of the account holder.

During the license application, investment service providers must provide the internal regulations for the prevention of money laundering operations. The investment service providers must refuse services in case the client is not willing to identify themselves or if the supplied identification is not reliable.

6.

The HFSA has access to the identity of all customers as well as all data relating to any business transaction.

7.

The HFSA may outsource a portion of an inspection to external experts (but this is never an SRO) however the ultimate control and supervision of the inspection remains vested with the HFSA.

External experts must provide full access to the HFSA of all information, document and data.

Principle 9 The regulator should have comprehensive enforcement powers.

1. Does the regulator or other competent authority within the jurisdiction have the investigative and enforcement power to enforce compliance with the laws and regulations relating to securities activities?
2. Does the regulator or other competent authority within the jurisdiction have the following powers:
 - a) Power to seek orders, to refer matters for civil proceedings or to take other action to ensure compliance with regulatory, administrative, and investigative powers?
 - a) Power to impose administrative sanctions?
 - b) Power to initiate or to refer matters for criminal prosecution?
 - c) Power to order the suspension of trading in securities or to take other appropriate actions?
3. Does the regulator or other competent authority have the investigative and enforcement power to require from any persons involved in relevant conduct or who may have information relevant to a regulatory or enforcement inquiry/investigation:
 - a) Data?
 - b) Information?
 - c) Documents?
 - d) Records?
 - e) Statements or testimony?
4. Can private persons seek their own remedies for misconduct relating to the securities laws?
5. Where an authority other than the regulator must take enforcement or other corrective action, can the regulator share information obtained through its regulatory or investigation activities with that authority?
6. Where the regulator is unable to obtain information in its jurisdiction necessary to an investigation, is there another authority that can obtain the information?
7. If yes, can that authority share the information with the regulator for the regulator's use in investigations and proceedings?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
Yes, the HFSA has got the investigative and enforcement power to secure the compliance with the regulations in the field of securities activities.

2. a)
The HFSA supervises the activity of legal entities on an ongoing basis, and is entitled to take measures and/or impose sanctions listed in the CMA, in case of any violation of the regulation. Should a case not fall under the scope of the HFSA's procedures or establishes criminal act the HFSA initiates actions at other authorities, court or police.

2. b)

The HFSA has the statutory power to impose administrative sanctions.

The HFSA may for example

- prohibit the conduct of unauthorized activities;
- initiate the dismissal of an executive employee or the auditor of supervised bodies;
- initiate disciplinary action against an employee of such institutions;
- 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;
- impose fines in the cases and in the measure prescribed by law;

2. c)

Should the HFSA detect a case which establishes the suspect of criminal offence, initiates the criminal prosecution of that or brings an accusation against the related bodies/persons.

2. d)

Yes, the HFSA may

- compel the executive board of the exchange or a clearing corporation to call an extraordinary general meeting, and may specify the mandatory agenda for such sessions;
- order an issuer, investment service provider, commodities broker, investment fund manager, the exchange or a clearing corporation to disclose specific data or information;
- 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;
- order the suspension of trading on an exchange section or all trading operations on the exchange for a specific period of time;
- revoke the license of an exchange;

3.

The HFSA has the power to obtain data, information, documents and records and to conduct inspection and investigation in respect of supervised bodies either according to the relevant provisions of the CMA or the Act CXL of 2004 on the General Rules for State Administration Procedures and Services.

The representative of the HFSA may enter the premises in order to conduct the inspections. 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.

The HFSA is entitled to acquire any statements or testimonies which are needed to discover the details of given cases.

4.

Private persons can seek their own remedies within the frames of procedures before Civil Courts, which are out of the competence of the HFSA.

In addition private persons can turn to the HFSA with any complaints relating to financial entities. The HFSA ensures that the financial entities rectify the situation and provide due information.

5.

The HFSA may provide other authority with the information obtained through carrying out its functions, in conformity with the data protection regulations concerning business and securities secrets.

6.

The HFSA is a single competent authority, therefore in most cases possesses the relevant information.

Should the HFSA still be unable to gain the sought information, it may address enquiry to the competent authority (e.g.: police, public prosecutor).

The HFSA has concluded cooperation agreements with such institutions with which it performs substantial information exchange. Amongst these agreements the tripartite agreement with the National Bank of Hungary and the Ministry of Finance should be highlighted.

7.

According to business and securities secrets, the HFSA may not disclose information. The legislation stipulates the definition of business and securities secrets and those entities in relation to which such secrets arise. It requires confidentiality in relation to business and securities secrets and also those institutions in relation to which the confidentiality requirement does not apply. The legislation states that the securities secrets do not apply in relation with acts committed in conjunction with organized crime and the black economy. The law allows aggregate data to be processed for statistical purposes and in order to make public reports on the capital market, its activities and actors.

Principle 10 The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

Is there evidence of an effective system in place to detect breaches, gather and use information, promote compliance and sanction non-compliance, using surveillance, inspection, investigation, enforcement and intervention powers, as follows:

Detecting Breaches

1. Is there an effective system of inspection in place whereby the regulator carries out inspections:
 - a) On a routine periodic basis?
 - b) Based upon a risk assessment?
 - c) Based upon a complaint associated with an inspected entity?
2. Is there an automatic system which identifies unusual transactions on authorized exchanges and regulated trading systems?
3. Can the regulator demonstrate adequate mechanisms and procedures to detect and investigate:
 - a) Market and/or price manipulation?
 - b) Insider trading?
 - c) Failure of compliance with other regulatory requirements, for example: conduct of business, capital adequacy, disclosure or segregation of client assets?
4. Does the regulator have an adequate system to receive and respond to investor complaints?

Gathering and Using Information

5. Is there evidence, such as inspection reports and follow up action, which indicates that the regulator is competently discharging inspection responsibilities?
6. Is there evidence that the regulator is adequately addressing unusual market activity?

Compliance System

7. Does the regulator require regulated entities to have in place supervisory and compliance procedures reasonably designed to prevent securities laws violations?
8. Does the regulator monitor how compliance procedures are executed and communicated to employees of such entities?
9. Can the regulator take measures against or discipline or sanction intermediaries for failure to supervise reasonably subordinate personnel whose activities violate the securities laws?
10. Does the regulator require market surveillance mechanisms that permit an audit of the execution and trading of all transactions on authorized exchanges and regulated trading systems?
11. Does the regulator or other competent authority have an effective enforcement program in place to enforce regulatory requirements?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.

The HFSA – according to the inspection plan and inspection program carries out overall, comprehensive inspection of major financial institutions at least every two years. The supervision – while carrying out the comprehensive inspection of investment companies also inspects the companies under its authority on a consolidated basis.

In addition to the comprehensive inspections, the supervision may undertake a direct inspection to address a particular issue at a financial institution and a subject specific inspection to address a particular issue at several identical financial institutions.

The supervision prepares a risk assessment of the financial markets and rates the institutions according to their risk profiles.

A complaint is processed in the course of the risk assessment. In case of a major complaint a direct inspection may be initiated.

2.

The detection of unusual transactions on the BSE is ensured by its trading system. Any unusual or suspicious events must be reported to the HFSA.

3.

If the BSE reports any unusual or suspicious events the HFSA carries out manual data monitoring. The HFSA inspects compliance of with the regulatory requirements on an ongoing basis via on-site and off-site inspections.

4.

There is a specific department with the HFSA that operates and maintains client relations. Mainly it receives complaints of investors, and transfers them to the specialized departments with competence.

5.

The inspection report is made available to the person(s) involved, who may provide comments. The resolutions are publicly posted and disclosed in the official journal and the HFSA website.

The HFSA undertakes follow up action to monitor fulfillment of the required actions.

6.

The investigation of unusual market activity is carried out by the HFSA according to the general rules of investigations, therefore the same guarantees are also built into these procedures..

7.

According to the regulations investment service providers must adopt internal regulations that are adequate to prevent securities law violations. HFSA examines these internal regulations during the course of licensing and authorizes their use.

8.

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, which are subject to the HFSA's authorization. In addition, the HFSA inspects the operation of compliance procedures during on-site inspections.

9.

The legislation defines the scope of individuals who have direct responsibility for violations of the securities laws.

10.

All regulated market transactions are executed on the platform of the Budapest Stock Exchange. The BSE is required to register all data of transactions. Furthermore the Central Clearing House and Depository stores and reports the data of settled transactions on daily basis. Using these sources the HFSA can audit transactions if needed.

11.

The HFSA may use the sanctions and supervisory measures in a graduate manner and repeatedly. Unpaid fines can be forcibly collected.

Principle 11 The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts.

1. For each of the regulators identified, does the regulator have authority to share with other domestic regulators and authorities information on:
 - a) Matters of investigation and enforcement?
 - b) Determinations in connection with authorization, licensing or approvals?
 - c) Surveillance?
 - d) Market conditions and events?
 - e) Client identification?
 - f) Regulated entities?
 - g) Listed companies and companies that go public?
2. Can the regulator share the information described in Key Question 1 with other domestic authorities without the need for external approval such as from a relevant government minister or attorney?
3. Does the regulator have the authority to share information with foreign counterparts with respect to each of the matters listed in Key Question 1, specifically:
 - a) Matters of investigation and enforcement?
 - b) Determinations in connection with authorization, licensing or approvals?
 - c) Surveillance?
 - d) Market conditions and events?
 - e) Client identification?
 - f) Regulated entities?
 - g) Listed companies and companies that go public?
4. Can the regulator share the information for enforcement and regulatory purposes with foreign counterparts without the need for external approval, such as from a relevant government minister or attorney?
5. Can the regulator provide information to other domestic and foreign authorities on an unsolicited basis?
6. Can the regulator share information with foreign counterparts even if the alleged conduct is not such that it would constitute a breach of the laws of the regulator's jurisdiction if conducted within that jurisdiction?
7. Where the regulator can obtain information and records identifying the person or persons beneficially owning or controlling bank accounts related to securities and derivatives transactions and brokerage accounts, can the regulator share that information with domestic and foreign counterparts?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
The HFSA is authorized to provide both public and non-public information to relevant agencies
2.
The HFSA can share the information described in Key Question 1 without external approval.

3.

There is no differentiation between domestic and international sharing of information.

4.

The HFSA can share the information described in Key Question 3 without external approval.

5.

The HFSA can provide information to other domestic and foreign authorities on an unsolicited basis.

6.

The HFSA can provide information even in the alleged conduct would not constitute a breach of the Hungarian laws.

7.

Information and records relating to market participants are protected by business secrecy rules, while information and records relating to clients are protected by banking and securities secrecy rules. However, exceptions to the confidentiality requirements exist, therefore the HFSA is able to obtain and provide information and records identifying the person(s) beneficially owning or controlling bank accounts related to securities and derivatives transactions and brokerage accounts to its foreign regulatory counterparts and also to other domestic authorities. Secrecy rules are overridden by special provision in the HFSA Act, enabling the HFSA to provide information to foreign counterparts in order to facilitate in the fulfillment of their duties.

Principle 12 Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.

1. Does the regulator have the power, by legislation, rules or as a matter of administrative practice, to enter into information-sharing agreements (whether formal or informal) with other domestic authorities?
2. Does the regulator have the power, by legislation, rules or as a matter of administrative practice, to enter into information-sharing agreements (whether formal or informal) with foreign counterparts?
3. Has the relevant regulator developed information-sharing mechanisms to:
 - a) Facilitate the detection and deterrence of cross-border misconduct?
 - b) Assist in the discharge of licensing and surveillance responsibilities?
4. Where warranted by the scope of cross-border activity and the ability to provide reciprocal assistance, does the regulator actively try to establish information-sharing arrangements with foreign regulators?
5. Are these arrangements documented in writing?
6. Does the regulator take steps to assure safeguards are in place to protect the confidentiality of information transmitted consistent with its uses?
7. Can the regulator demonstrate that it shares information, where appropriate safeguards are in place, when it is requested by another domestic authority or foreign counterpart?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
As a matter of administrative practice and in line with the relevant legislation, the HFSA has the power to enter into information sharing agreements with other domestic authorities. The HFSA has indeed signed MoUs with numerous domestic authorities.

2.
The HFSA has the power to conclude agreements on cooperation and information exchange with foreign supervisory authorities.

3.
Cooperation agreements and MoUs have been signed with the relevant authorities of the following countries:

United States, Australia, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, South Africa, United Kingdom, Estonia, Finland, France, Greece, the Netherlands, Hong-Kong, India, Ireland, Iceland, Jersey, Canada, Poland, Latvia, Lithuania, Luxembourg, Malta, Mexico, Germany, Norway, Italy, Peru, Portugal, Romania, Spain, Sri Lanka, Switzerland, Sweden, Slovakia, Slovenia, Turkey, New Zealand.

4.

The HFSA actively tries to pursue information sharing arrangements with foreign regulators.

5.

They are always documented in writing.

6.

Confidentiality requirements are to be met. The requesting authority may use the information solely for the purpose stated in the request and must guarantee equal or better legal protection of data as afforded by the Hungarian law.

7.

Past evidence shows that when needed the cooperation agreements work smoothly as required.

Principle 13 The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

1. Is the domestic regulator able to offer effective and timely assistance to foreign regulators in obtaining:
 - a) Contemporaneous records sufficient to reconstruct all securities and derivatives transactions, including records of all funds and assets transferred into and out of bank and brokerage accounts relating to those transactions?
 - b) Records for securities and derivatives transactions that identify:
 - i. The client:
 - (1) Name of the account holder?
 - (2) Person authorized to transact business?
 - ii. The amount purchased or sold?
 - iii. The time of the transaction?
 - iv. The price of the transaction?
 - v. The individual and the bank or broker and brokerage house that handled the transaction?
 - c) Information located in its jurisdiction identifying persons who beneficially own or control non-natural persons organized in its jurisdiction?
2. Is the domestic regulator able to offer effective and timely assistance to foreign regulators in securing compliance with laws and regulations related to:
 - a) Insider dealing, market manipulation, misrepresentation of material information and other fraudulent or manipulative practices relating to securities and derivatives, including solicitation practices, handling of investor funds and customer orders?
 - b) The registration, issuance, offer, or sale of securities and derivatives, and reporting requirements related thereto?
 - c) Market intermediaries, including investment and trading advisers who are required to be licensed or registered, collective investment schemes, brokers, dealers and transfer agents?
 - d) Markets, exchanges and clearing and settlement entities?
3. Is the domestic regulator able, according to its domestic laws and regulations, to provide effective and timely assistance to foreign regulators regardless of whether the domestic regulator has an independent interest in the matter?
4. Is the domestic regulator able to offer effective and timely assistance to foreign regulators in obtaining information on the regulatory processes in its jurisdiction?
5. Is the domestic regulator able to offer effective and timely assistance to foreign regulators in requiring or requesting:
 - a) The production of documents?
 - b) Taking a person's statement or, where permissible, testimony under oath?
6. Is the domestic regulator able to offer effective and timely assistance to foreign regulators in obtaining court orders, if permitted, for example, urgent injunctions?
7. Is the domestic regulator able to provide effective and timely assistance to foreign regulators regarding information about financial conglomerates subject to its supervision and more precisely assistance in relation, for example, to:
 - a) The structure of financial conglomerates?
 - b) The capital requirements in conglomerate groups?

- c) Investments in companies within the same group?
- d) Intra-group exposures and group-wide exposures?
- e) Relationships with shareholders?
- f) Management responsibility and the control of regulated entities?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

Under the provisions of Act CXXXIV 1999 on Hungarian Financial Supervisory Authority The HFSA may enter into cooperation agreements and exchange information with foreign financial supervisory organizations so as to improve facilities to carry out its duties, to achieve supervision on a consolidated basis and to promote integration programs. The Hungarian Supervisory Authority may join international organizations created to facilitate and improve cooperation between financial supervisory organizations.

(The HFSA may use any data and information received from foreign financial supervisory authorities in the course of such cooperation, and it may furnish information to foreign financial supervisory authorities exclusively for the following purposes:

- a) the evaluation of licensing the foundation and operation of financial organizations, and confirming the information contained in such permits, and the prudential supervision of financial organizations, and for court procedures in relation to supervisory resolutions,
- b) developing solid grounds for resolutions, particularly for measures or sanctions.

Any data and information supplied or received under cooperation between the supervisory commissions may not be disclosed to third parties without the prior written consent of the source of such data or information. The HFSA may release data or information to a foreign supervisory authority if it guarantees equivalent or better legal protection of such data and information than the protection afforded under Hungarian law.

According to Sections 181/I and 181/J of Act CXX of 2001 on the Capital Market:

At the request of a supervisory authority of a third country, the HFSA, 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.

At the request of the supervisory authority of a third country, the HFSA, having considered the availability of reciprocity, may conduct the consolidated on-site or off-site inspections, 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.

An investment enterprise that is a parent company shall be supervised on a consolidated basis by the supervisory authority of competence of the EU Member State in which the investment enterprise is established.

If the parent company of an investment enterprise is a financial holding company, supervision on a consolidated basis shall be exercised by the supervisory authority of competence of the Member State in which the investment enterprise is established.(Subsection (2) of the Section 181/J)

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 below - by the supervisory authority of the Member State in which the financial holding company is established. (Subsection (3) of the Section 181/J)

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. (Subsection (4) of the Section 181/J)

The supervisory authorities may depart from the provisions of Subsections (2) and (3) of the Section 181/J subject to an agreement between them. (Subsection (5) of the Section 181/J)

An agreement concluded under Subsections (4) and (5) of Section 181/J must ensure the flow of information for the objectives of supervision on a consolidated basis as well as collaboration between the supervisory authorities involved.

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.

The HFSA shall cooperate with the supervisory authorities of other Member States in exercising supervision on a consolidated basis.

The HFSA 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. At the request of the supervisory authority of another Member State, the HFSA may conduct the consolidated on-site or off-site inspections, 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.

According to Sections 368 - 374 of Act CXX of 2001 on the Capital Market:

The confidentiality requirement concerning “business” secret and securities secrets shall not apply with regard to the HFSA, when attending to its official duties conferred upon it by law.

Furthermore, the requirement of confidentiality concerning securities secrets shall not apply

- when the HFSA 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,
- 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.

The disclosure of data in order to comply with the provisions contained in Chapters XIX/A (on supervision on a consolidated basis) and XIX/B (on supplementary supervision and financial conglomerates) of Act CXX of 2001 on the Capital Market shall not consider as a breach of confidentiality concerning securities secrets.

1.a)
Yes.

1.b)
Yes

1.c)
No.

2.a)
According to Section 206 of Act CXX of 2001 on the Capital Market, the HFSA shall promptly comply with the requests of the competent supervisory authorities of Member States for information concerning insider trading and market manipulation. The Supervisory Authority, if unable to provide the information requested, shall inform the requesting competent supervisory authority concerning the reasons.

The HFSA may refuse to act on a request of a foreign competent supervisory authority for information concerning insider trading and market manipulation where:

a) communication might adversely affect the sovereignty, security or public policy of the Republic of Hungary;

b) judicial proceedings have already been initiated in respect of the same actions; or

c) a final judgment has already been delivered for the same actions.

In the event of refusal of the request referred to above the HFSA shall notify the requesting competent supervisory authority on the proceedings referred to in paragraph *b)* or the judgment referred to in paragraph *c)*. Where the Hungarian Supervisory Authority is convinced that acts relating to insider trading and/or market manipulation are being, or have been, carried out on the territory of another Member State of the European Union, it shall give notice of that fact to the competent authority of the other Member State.

2.a)b)c)d) According to the general provisions mentioned in the introductory part of this point, the answer to these sub-questions is yes.

3.
Yes.

4.
Yes

5. Yes, with some limitations (confidentiality, treatment of information)

6. In principle yes, but it hasn't been tested in practice.

7.
According to Section 181/U of Act CXX of 2001 on the Capital Market the HFSA shall cooperate closely with the competent authorities concerned for supplementary supervision of entities in a financial conglomerate. The Hungarian Supervisory Authority shall provide data and information which is essential or relevant for the exercise of supplementary supervision to the other competent authorities.

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.

The HFSA 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.

The HFSA 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.

The Hungarian Supervisory Authority may decide not to consult in cases of urgency or where such consultation may jeopardize the effectiveness of the decisions. In this case, the HFSA shall, afterwards, without delay, inform the other competent authorities concerned.

The HFSA, 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.

Principle 14 There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.

Full Disclosure

1. Does the regulatory framework have clear, reasonably timely, comprehensive and specific disclosure requirements that apply to:
 - a) Public offerings, including the conditions applicable to an offering of securities for public sale, the content and distribution of prospectuses and other offering documents (and, where relevant, short form profile or introductory documents) and supplementary documents prepared in the offering?
 - b) Annual reports?
 - c) Other periodic reports?
 - d) Shareholder voting decisions?
2. Does the regulatory framework have sufficiently clear, comprehensive and specific requirements that apply to:
 - a) Timely disclosure of events that are material to the price or value of listed securities?
 - b) Listing of securities?
 - c) Advertising of public offerings outside of the prospectus?
3. If there are derivative markets, is there disclosure of the terms of the contracts traded, the mechanics of trading and the risks related to gearing or leverage by market operators or intermediaries?
4. Does the regulatory framework require:
 - a) Financial information and other required disclosure in prospectuses, listing documents, annual and other periodic reports, and, where applicable, in connection with shareholder voting decisions, to be of sufficient timeliness to be useful to investors?
 - b) Periodic information about financial position and results of operations (which may be in summary form) to be made publicly available to investors?
 - c) Appropriate measures to be taken (for example, provision of more recent unaudited financial information) when the audited financial statements included in a prospectus for public offerings are stale?

General Disclosure

5. In addition to specific disclosure requirements, is there a general requirement to disclose either all material information or all information necessary to keep the disclosures made from being misleading?

Sufficiency, Accuracy, Timeliness and Accountability for Disclosure

6. Are there measures available to the regulator (e.g., review, certification, supporting documentation, sanctions) to help assure the sufficiency, accuracy and timeliness of the required disclosures?
7. Does regulation ensure that proper responsibility is taken for the content of information in disclosure documents and the timeliness of disclosure by providing for sanctions or liability of the issuer and those responsible persons who fail to exercise due diligence in the gathering and provision of information? (Depending upon the circumstances, these persons may include the issuer, underwriters, directors, authorizing officers, promoters, and experts and advisers consenting to be named as such.)

Derogations

8. Are the circumstances where disclosures may be omitted or delayed limited to trade secrets, similar proprietary information or other valid business purposes, such as incomplete negotiations?
9. Where there are derogations from the objective of full and timely disclosure, is regulation sufficient to provide for:
 - a) Temporary suspensions of trading?
 - b) Restrictions on, or sanctions regarding, the trading activities of persons with superior information?

Cross-Border Matters

10. If public offerings or listings by foreign issuers are significant within the jurisdiction, are the jurisdiction's disclosure requirements for such offerings or listings of equity securities by foreign issuers consistent with IOSCO's International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.

Yes.

- a) As of July 2005, was amended with the implementation of 2001/34/EU Directive (Prospectus Directive). Additionally, the 809/2004/EC regulation (Prospectus Regulation) has come into force. That act together with the Regulation governs the conduct of issuers based on the principle of full and fair disclosure to investors.
- b) The issuers are required by the CMA to disclose financial information at a regular basis under the condition set in the act. Actually, the annual report contains the audited annual financial accounts prepared in line with the Hungarian Accounting Act which has implemented the IFRS and additional special information related to the fact being an issuer.
- c) The issuers are required by the CMA to disclose other (non-audited) financial information as preliminary numbers at a regular (half-yearly) basis.
- d) The issuers are required by the CMA to disclose extraordinary information about all matters that may affect the value or the yield of the securities which includes the shareholder voting decisions.

2.

Yes.

- a) The issuers are required by the CMA to disclose extraordinary information about all matters that may affect the value or the yield of the securities without delay but not later than 1 business day.
- b) Procedure and documentation for listing securities on a stock exchange must be made and licensed in accordance with CMA (see 1.a) above) meaning that the fact is made public in due course.
- c) CMA states clear requirements: all related advertisements must be preliminary reviewed by the HFSA.

3.

No derivative market in Hungary.

4.

Yes.

- a) Those are the parts of a public prospectus.
- b) Periodic information about financial position and results of operations in a brief form are made public half-yearly as a minimum.
- c) Audited historical financial information covering the latest 3 financial years is a part of the prospectus. The last year of audited financial information may not be older than 18 months as maximum and than additional requirements apply, e.g. (published) interim reports should also be included.

5.

Yes, a declaration of 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 is annexed to the prospectus.

6. Yes, HFSA has power to inspect the documents of the distributor, the issuer, the offeror and the person requesting admission of the securities to trading on a regulated market underlying the prospectus, to request copies of such documents or to have them analyzed by an independent expert.

7.

Yes (see 5. above)

8.

As of the CMA, time limit referred to in 2. a) above 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. No derogation is allowed, however a pre-clearance with HFSA helps to understand the meaning of “being informed” by the issuer in special cases.

9.

Suspending of an offering or subscription of securities and the trading of investment instruments is possible only in connection with a take-over however, the fact of such action is also disclosed. As a consequence of any failure to comply with the obligation to disclose the required information, HFSA make public that information.

Restrictions on insider trading and market manipulation have been harmonized with the Market Abuse Directive of EU.

10.

All public offerings are consistent with the relevant EU legislative requirements.

Principle 15 Holders of securities in a company should be treated in a fair and equitable manner.

Rights of Shareholders

1. Does the regulatory framework and legal infrastructure address the rights and equitable treatment of shareholders in connection with the following:
 - a) Voting:
 - i. For election of directors?
 - ii. On corporate changes affecting the terms and conditions of their securities?
 - iii. On other fundamental corporate changes?
 - b) Timely notice of shareholder meetings?
 - c) Procedures that enable beneficial owners to give proxies or voting instructions efficiently?
 - d) Ownership registration (in the case of registered shares) and transfer of their shares?
 - e) Receipt of dividends and other distributions, when, as, and if declared?
 - f) Transactions involving:
 - i. A takeover bid?
 - ii. Other change of control transactions?
 - g) Holding the company, its directors and senior management accountable for their involvement or oversight resulting in violations of law?
 - h) Bankruptcy or insolvency of the company?
2. Is full disclosure of all information material to an investment or voting decision required in connection with shareholder voting decisions generally and the transactions referred to in Questions 1(f)(i) and 1(f)(ii) specifically?

Control

3. With respect to transactions referred to in Question 1(f)(i) and 1(f)(ii), are shareholders of the class or classes of securities affected by the proposal:
Given a reasonable time in which to consider the proposal?
Supplied with adequate information to enable them to assess the merits of the proposal?
As far as practicable, given reasonable and equal opportunities to participate in any benefits accruing to the shareholders under the proposal?
Given fair and equal treatment (in particular, minority security holders) in relation to the proposal?
Not unfairly disadvantaged by the treatment and conduct of directors of any party to the transaction or by the failure of the directors to act in good faith in responding to or making recommendations with respect to the proposal?
4. With respect to substantial holdings of voting securities:
 - a) Is information about the identity and holdings of persons who hold a substantial (well below controlling) beneficial ownership interest in a company required to be timely disclosed:
In public offering and listing particulars documents?
Once the ownership threshold requiring disclosure has been reached?
At least annually (e.g., in the issuer's annual report)?
 - b) Are material changes in such ownership and other required information required to be timely disclosed?

- c) Are these disclosure requirements applicable to two or more persons acting in concert even though their individual beneficial ownership might not have to be disclosed?
 - d) Is the legal infrastructure sufficient to assure enforcement of, and compliance with, the applicable requirements?
5. With respect to holdings of voting securities by directors and senior management:
- a) Is information about the beneficial ownership interest and material changes in beneficial ownership in a company required to be timely disclosed?
 - b) Is such information available:
 - c) In public offering and listing particulars documents?
 - d) At least annually (e.g., in the issuer's annual report)?
 - e) Is the legal infrastructure sufficient to ensure enforcement of and compliance with these requirements?

Cross Border

6. If public offerings or listings by foreign issuers are significant within the jurisdiction, does the jurisdiction require disclosure in foreign issuers' offering and listing particulars documents of any governance provisions or information relating to the foreign issuer's jurisdiction that may materially affect the fair and equitable treatment of shareholders?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
Yes. Equal treatment of the shareholders (in some cases: of the same class e.g. in relation to dividend) is a high principle and is also required by law.
- a) Voting rights attached to the same class of shares are equal by law, thus election of board members, corporate changes affecting the terms and conditions of their securities, other fundamental corporate changes should be voted on a general/extraordinary shareholders' meeting.
 - b) According to the relevant requirements, notice on a shareholder meeting must be disclosed 30 days prior that event.
 - c) According to the relevant requirements, no detailed procedures that enable beneficial owners to give proxies or voting instructions efficiently on a shareholder meeting are set therefore the general norms of Civil Law and standards of the articles of association should be followed. (Only rules on nominee are set in the CMA.
 - d) CMA set detailed regulation on share register.
 - e) Rights attached to the same class of shares are equal by law i.e. receipt of dividends and other distributions within the same class of shares are equivalent.
 - f) In the CMA, take-over regulations have been harmonized with the Take-over Directive of EU.
 - g) Yes, equal by law.
 - h) Yes, equal by the law (Bankruptcy Act)

2.
Yes, that is also a part of take-over regulations.

3.

Yes.

The take-over offer shall be filed with the targeted company and with HFSA for approval simultaneously and make it public. Approval or request of additional documents is submitted within 15 days, and if it is authorized and published, a minimum of 30 days but not more than 45 days period is opened to accept the offer.

A so-called operating plan with the specified obligatory elements about the future of the target company, and a business report of the bidder if it is organization, are parts of the bid.

No purchase offer may be arranged to breach the principle of equal treatment in relation to the declaration of acceptance of shareholders.

4.

Substantial holdings of voting securities:

a) Yes.

Holders of major (share)holdings are introduced in prospectus of public offering/listing documents and also in interim financial reports. Where a shareholder acquires or disposes of shares of a public company and to which voting rights are attached, such shareholder shall notify the issuer and HFSA of the proportion of voting rights of the issuer held by the shareholder as a result of the acquisition or disposal where that proportion reaches, exceeds or falls below the thresholds of 5 %, 10 %, 15 %, 20 %, etc.

b) The notification to the issuer and to the HFSA shall be effected as soon as possible, but not later than 2 calendar days, and the shareholder shall immediately initiate to make public all the information contained in the notification.

c) These disclosure and notification requirements are applicable to all relevant (involved or concerned) parties. The obligations apply also to any agreement for the acquiring or disposal of voting rights at a later date or subject to certain stipulated conditions. While those obligations are not complied with, voting rights cannot be exercised.

d) Yes, and it is harmonized with the EU-requirements.

5.

Holdings of voting securities by directors and senior management:

a) Yes, the regime on the disclosure of extraordinary information should be applied.

b) Yes, it is disclosed.

c) Yes, it is a part of such prospectuses.

d) Yes, it is a part of the annual financial report.

e) Yes, this information may be enforced.

6.

Prospectuses of foreign issuers entering the Hungarian market have to be made under the provisions of the Prospectus Directive (and the regulation).

Principle 16 Accounting and auditing standards should be of a high and internationally acceptable quality.

1. Are public companies required to include audited financial statements in:
 - a) Public offering and listing particulars documents?
 - b) Publicly available annual reports?
2. Do the required audited financial statements include:
 - a) A balance sheet or statement of financial position?
 - b) A statement of the results of operations?
 - c) A statement of cash flow?
 - d) A statement of changes in ownership equity or comparable information included elsewhere in the audited financial statements or footnotes?
3. With respect to the financial statements required in public offering and listing particulars documents and publicly available annual reports:
 - a) Are these required to be prepared and presented in accordance with a comprehensive body of accounting standards?
 - b) Are these accounting standards of a high and internationally acceptable quality?
4. Are the financial statements presented under circumstances so that they:
Are comprehensive?
Are understandable by investors?
Reflect consistent application of accounting standards?
Are comparable if more than one accounting period is presented?
5. With respect to the audited financial statements included in public offering and listing particulars documents and publicly available annual reports:
 - a) Are these required to be audited in accordance with a comprehensive body of auditing standards?
 - b) Are these auditing standards of a high and internationally acceptable quality?
6. Are there standards or requirements sufficient to ensure that the external auditor is independent?
7. Where unaudited financial statements are used, for example, in interim reports, and interim period financial statements in public offering and listing particulars documents, in full or summary format, is the financial information presented in accordance with accounting standards that are of a high and internationally acceptable quality?
8. In regard to oversight, interpretation and independence:
 - a) With respect to accounting standards:
 - i. Does the regulatory framework provide for an organization responsible for the establishment and timely interpretation of accounting standards?
 - ii. If yes, are the organization's processes open and transparent, and, if the organization is independent, is the interpretation process undertaken in cooperation with, or subject to oversight by, the regulator or another body that acts in the public interest?
 - b) With respect to auditing standards:
 - i. Does the regulatory framework provide for an organization responsible for the establishment and timely interpretation of auditing standards?

- ii. If yes, are the organization's processes open and transparent, and, if the organization is independent, is the interpretation process undertaken in cooperation with, or subject to oversight by, the regulator or another body that acts in the public interest?
 - c) With respect to the external auditor, in the case of listed companies:
 - i. Is the external auditor required to be independent in both fact and appearance of the company being audited?
 - ii. Is there a governance body independent in both fact and appearance of the management of the company (e.g., shareholders or a statutory or corporate audit oversight body) that oversees the process of selection and appointment of the external auditor?
 - iii. Is prompt disclosure of information about the resignation, removal or replacement of an external auditor required?
- 9. Is there an adequate mechanism in place for:
 - a) Enforcing compliance with accounting standards such as requiring restatements of financial statements that deviate from accepted standards?
 - b) Enforcing compliance with auditing and auditor independence standards, such as refusal to accept, or requiring revision of, audit reports that deviate from required standards as to the opinion expressed or scope of the audit, or for lack of independence?
- 10. If public offerings or listings by foreign issuers are significant within the jurisdiction, does the regulator permit the use of high quality, internationally acceptable accounting standards by foreign companies that wish to list or offer securities in the country?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

- 1. Yes.
 - a) For details see Principle 14. 4. c)
 - b) For details see Principle 14. 1. b)
- 2. Audited financial statements:
 - a) Yes.
 - b) Yes.
 - c) Yes.
 - d) Yes, introduction of changes in ownership-structure is a part of annual financial report.
- 3. Financial statements in prospectuses and annual reports:
 - a) Yes, the financial statements in prospectuses and in the annual financial report should be reviewed/audited by an independent (chartered) auditor.
 - b) Yes, financial statements must be prepared according to Regulation (EC) No 1606/2002, or if not applicable, to a Member State national accounting standards for issuers.
- 4.

Yes, comprehensiveness is a requirement and understandable. The applied accounting standards should be adequate and consistent, and even if changed, the report itself should be comparable.

5.

Audited financial statements in prospectus and annual financial reports:

- a) Yes. For further details see Principle 14. 1. b) and 4. c)
- b) Yes. For further details see 3. b) above.

6.

Yes, that is a requirement by CMA.

7.

Yes, all financial statement should be prepared under the same accounting standards and/or should ensure comparability.

8.

Oversight, interpretation and independence:

- a) Accounting standards:
 - i. Such interpretation is made by the Ministry of Finance together with the technical advice from Auditors' Chamber in practice.
 - ii. Yes, the processes open and transparent, the organization is independent, and cooperates with other bodies.
- b) Auditing standards:
 - i. Such interpretation corresponding with international standards is published by the Auditors' Chamber.
 - ii. Yes, the processes open and transparent, the organization is independent, and cooperates with other bodies.
- c) External auditor of listed companies:
 - i. Yes.
 - ii. Yes, that is the shareholders' meeting.
 - iii. Yes.

9.

Yes, an adequate mechanism exists.

10.

Such accounting standards should be in line with the Hungarian/internationally accepted regulations.

Principle 17 The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.

Entry Criteria

1. Does the regulatory framework set standards for the eligibility and the regulation for those who wish to:
 - a) Market a CIS?
 - b) Operate a CIS?
2. Do the eligibility criteria for CIS include the following:
 - a) Honesty and integrity of the operator?
 - b) Competence to carry out the functions and duties of the operator (i.e. human and technical resources)?
 - c) Financial capacity?
 - d) Operator specific powers and duties?
 - e) Adequacy of internal management procedures?
3. Does the approval of schemes take into account the possible need for international cooperation in the case of CIS marketed across jurisdictions or where promoters, managers or custodians are located in several different jurisdictions?
4. Are there:
 - a) Effective, proportionate and dissuasive sanctions for unlicensed operation of a CIS and/or for violation of CIS operator obligations?
 - b) Are these sanctions consistently applied?

Supervision and Ongoing Monitoring

5. Is the regulator responsible for ensuring compliance with the eligibility standard? In particular, does the regulatory framework provide for attribution to the regulatory authority of responsibilities and clear powers with respect to:
 - a) Registration or authorization of a CIS?
 - b) Inspections to ensure compliance by CIS operators?
 - c) Investigation of suspected breaches?
 - d) Remedial action in the event of breach or default?
6. Is there ongoing monitoring of the conduct of CIS operators throughout the life of a scheme, including continued compliance with eligibility, licensing, registration, or authorization requirements?
7. Does the ongoing monitoring involve review of reports to the regulator submitted by CIS (CIS operators, custodians, etc.) on a routine basis?
8. Does the ongoing monitoring normally involve performance of on-site inspections of entities involved in operating CIS (CIS operators, custodians, etc.)?
9. Do the regulatory authorities proactively perform investigative activities in order to identify suspected breaches with respect to entities involved in the operation of a CIS?
10. Is the operator of a CIS subject to a general and continuing obligation to report to the regulatory authority or investors, either prior to or after the event, any information relating to material changes in its management, organization or bylaws?
11. Does the regulatory system assign clear responsibilities for maintaining records of the operations of the scheme?

Conflicts of Interest

12. Are there provisions to prohibit, restrict or disclose certain conduct likely to give rise to conflicts of interest between a CIS and its operators or their associates or connected parties?
13. Are there regulatory provisions aiming at minimizing conflict of interest situations, to ensure that any conflicts that do arise do not adversely affect the interests of investors?
14. Is the CIS required to comply with rules related to:
 - a) Best execution?
 - b) Appropriate trading and timely allocation of transactions?
 - c) Churning?
 - d) Related party transactions?
 - e) Underwriting arrangements?

Delegation

15. Does the regulatory system provide for clear indication of circumstances under which delegation is allowed and is there prohibition of systematic and complete delegation of core functions of the CIS operator to the extent that there is a transformation, gradual or otherwise, into an empty box?
16. If delegation is permitted, is the delegation done in such a way so as not to deprive the investor of the means of identifying the company legally responsible for the delegated functions? In particular:
 - a) Is the CIS operator responsible for the actions or omissions, as though they were its own, of any party to whom it delegates a function?
 - b) Does the regulatory system require the CIS operator to retain adequate capacity and resources and have in place suitable processes to monitor the activity of the delegate and evaluate the performance of the delegate?
 - c) Can the CIS operator terminate the delegation and make alternative arrangements for the performance of the delegated function where appropriate?
 - d) Are there requirements for disclosure to investors in relation to the delegation arrangements and the identity of the delegates?
 - e) Does the regulatory system address delegations which may give rise to a conflict of interest between the delegate and the investors?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
The regulatory framework sets out standards for marketing and operating Collective Investment Schemes.

2.
The eligibility criteria for CIS include the following:

a) honesty and integrity: 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 other specific legislation and to whom none of the disqualifying factors listed in CMA applies. Similar rules to be applied for persons hired for portfolio management and for trading in investment instruments and the director of the back office.

b) competence to carry out functions and duties of the operator (i.e. human and technical resources): Institutions providing portfolio management and investment fund management services must have:

- sufficient office space available at their disposal,
- sufficient communications facilities (telephone, fax, e-mail),
- an accounts system with sufficient facilities to satisfy the criteria of separate handling and recording,
- 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 HFSA.

c) financial capacity: The minimum amount of subscribed capital prescribed for investment fund managers is one hundred million forints. 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.

d) operator specific powers and duties: the operator of a CIS must have operating regulations prepared according to the provisions of CMA.

e) adequacy of internal management procedures: the operator must have procedural regulations as defined in CMA.

3.

The rules of national legislation of CIS are in compliance with EU legislation.

4.

The HFSA shall have powers to prohibit the conduct of unauthorized investment fund management activities. Investment fund managers shall be subject to a fine imposed by the HFSA for any violation, evasion, non-fulfillment or late fulfillment of the obligations set out in CMA and in legal regulations enacted under its authorization, in the Act on Money laundering, in the resolution of the HFSA and in its own internal regulations, as well as if the penalty is proposed by the National Bank of Hungary or by a foreign supervisory authority. The HFSA do have a written policy on supervision fines which takes into account the frequency of violations and the weight of negligence

5.

The regulator is responsible for ensuring compliance with the eligibility standard. The regulatory framework provide for attribution to the regulatory authority of responsibilities and clear powers with respect to the followings:

a) Registration of a CIS: a collective investment scheme shall be deemed established when registered by the HFSA upon the fund manager's request

b) Inspections to ensure compliance by CIS operators: the HFSA 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 fund management companies at least every two years.

c) Investigation of suspected breaches: in addition to the comprehensive inspections referred to in previous answer, the HFSA may conduct a direct inquiry at investment fund management companies in connection with a specific problem or, if the same problem surfaces at several investment fund management companies, a general inquiry.

d) Remedial action in the event of breach or default: Supervision measures, actions, sanctions and fines are described in the law.

6.

There is an ongoing monitoring of the conduct of CIS operators throughout the life of a scheme. The process starts with the authorization and registration of the scheme. During the existence of the scheme, the operator must have to report to the Supervision on a daily basis the list and market value of instruments of the scheme electronically. Furthermore, investment fund managers shall be required to prepare biannual and annual reports in accordance with the provisions of CMA 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 HFSA and make them available to the investors at the fund manager and the broker/dealer. Investment fund managers also 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 HFSA 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 units.

7.

There is an ongoing review of reports. See also answer 6.

8.

Fund management companies and custodians are inspected on-site every second year.

9.

Based on the quarterly risk evaluation results of the operators the HFSA may conduct a direct inquiry at investment fund management companies in connection with a specific problem or, if the same problem surfaces at several investment fund management companies, a general inquiry.

10.

The operator of a CIS is subject to a general and continuing obligation to report to the HFSA and investors any information relating to the managed CIS and in some cases relating to the operator (e.g. withdrawal of license)

11.

The procedures, systems and solutions adopted by CIS operator 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). The operator of a CIS shall keep records of the assets of each CIS and each client separately.

12.

There are provisions in the law to prohibit, restrict or disclose certain conduct likely to give rise to conflict of interest between a CIS and its operators or their associates or connected parties.

13.

The regulatory provisions aiming the minimalization of conflict of interest situations.

The executive officers of investment fund management companies, 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.

Any person who falls within the scope of incompatibility as defined above must forthwith notify the HFSA, and shall terminate the grounds of incompatibility without delay.

14.

There are strict rules in the law that prohibit certain transactions. The fund manager may not invest the fund's own capital into investment certificates issued by the fund itself. 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.

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.

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. Investment fund managers shall act under the principle of equal treatment with respect to investors. Moreover, the rules for the prevention and handling of any conflict of interest are obligatory content requirements of the operating regulations of a CIS.

According to the HFSA's published guidelines there are also written rules that deal with the question of churning, allocation, best execution and related party transactions.

15.

In due observation of the provisions on data protection, fund management companies shall be authorized to outsource, fund management services and activities auxiliary to fund management services, as well as those mandatory activities prescribed by law that involve management, processing and storage of data.

16.

a) The investment fund management company 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 fund management company must immediately report to the HFSA if the performance of the outsourced activity violates the law or the contract.

b) 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 fund management companies.

c) The outsourcing contract shall contain amongst others the following:

- the outsourcing contractor's consent to the investment fund management company's internal control of the outsourced activities, its external auditor
- 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 fund management company in the event of a repeated or serious violation of the contract on the part of the outsourcing service provider.

d) The delegation arrangements must be disclosed to the HFSA within two days after signing.

e) Neither the executive officer of the investment fund management company nor his close relative shall be permitted to hold any interest in the outsourcing service provider, nor may the executive officer investment fund management company or his close relative be contracted to perform outsourced activities. The outsourcing contract shall contain amongst others the rules to be applied in order to avoid inside trading on the part of the outsourcing service provider.

Principle 18 The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.

Legal Form/Investors' Rights

1. Does the regulatory framework provide for requirements as to the legal form and structure of CIS that delineate the interests of participants and their related rights?
2. Does the regulatory framework provide that the legal form and structure of a CIS, as well as the implications thereof for the nature of risks associated with the scheme, be disclosed to investors in such a way that they are not dependent upon the discretion of the CIS operator?
3. Is there a regulatory authority responsible for ensuring that the form and structure requirements are observed and evidence that the above requirements are enforced in the assessed jurisdiction?
4. Does the regulatory framework provide that where changes are made to investor rights that do not require prior approval from investors, notice is given to them before the changes take effect?
5. Does the regulatory framework provide that where changes are made to investor rights, notice is given to the relevant regulatory authority?

Separation of Assets/Safekeeping

6. Does the regulatory framework require the separation and segregation of CIS assets from the assets of the CIS operator and its managers?
7. Does the regulatory framework provide for requirements governing the safekeeping of CIS assets such as:
 - a) The obligation to entrust the assets to an independent third party; or
 - b) Special legal or regulatory safeguards in cases where custodial functions are performed by the same legal entity responsible for investment functions (or related entities)?
8. Does the regulatory framework provide for the keeping of books and records in relation to transactions involving CIS assets and all transactions in CIS shares or units or interests?
9. Does the regulatory framework adequately provide for audit requirements (internal or external) in relation to the assets of a CIS?
10. Does the regulatory framework adequately provide for an orderly winding up of CIS business, if needed?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
The national legislation (Capital Market Act – CMA) regulates the form and structure of investment funds.

2.
In a company name, advertisement or in any other form, the designation "investment fund manager" may be used only by an investment fund management company established and

operated according to the CMA, additionally, the designation "investment fund" may be used to indicate only investment purpose funds established and operated according to the same act.

3.

The Supervision - while banning further illegal use of the name - may impose a fine on those who contravene these prohibitions.

Investment fund management activity may be carried out only with the license of the Supervision. Fund management companies may establish and manage several funds but the assets have to be managed and registered separately.

4.

The approval of investors is not needed when changes are made to investor's rights. See also answer 5.

5.

Where changes are made to investor's rights, notice should be given to the regulatory authority and after the approval of the authority notice should be given to investors before the changes take effect.

6.

The operator of a CIS shall keep records of the assets of each investment fund and each client separately.

7.

a) All securities held by a CIS must be deposited with the custodian or recorded on the accounts opened by the custodian, with the exception of collateralized securities. 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 the CMA, or an equivalent organization of foreign origin. The custodian shall be held liable for any damage caused by his failure to perform the obligations specified in the CMA (e.g. calculating and publishing the net asset value of the fund and units, monitoring the investment fund manager's compliance with investment policy laid down in legal regulation and the fund's operating regulations).

The custodian shall be held liable for any damage caused by his failure to perform the obligations specified in the CMA, and any clause or stipulation to the contrary shall be null and void

b) All securities held by a CIS must be deposited only with the custodian (i.e. bank) or recorded on the accounts opened by the custodian, with the exception of collateralized securities

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 assets 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.

Furthermore, the investment fund manager must handle and keep records of the assets of the fund and clients separately from its own assets. The assets that comprise part of a portfolio managed by an investment fund manager shall not be construed as the property of the fund manager. Investment fund managers shall keep records of the assets of each investment fund and each client separately.

All securities held by a CIS must be deposited with the custodian or recorded on the accounts opened by the custodian, with the exception of collateralized securities. Custodian may be only a bank approved by the Supervision.

9.

In case of public investment funds the fund managers must commission the services of an auditor to review the annual report of the investment fund they manage. The auditor shall also inspect the fund manager's compliance with the provisions laid down in the fund's operating regulations. The fund manager shall not be required to have private investment the fund's annual report reviewed by an auditor.

10.

Yes, the regulatory framework adequately provides information for the winding up of CIS business.

Principle 19 Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.

1. Does the regulatory framework require that all matters material to an evaluation of a CIS and the value of an investor's interest are disclosed to investors, and potential investors, in an easy to understand format?
2. Does the regulatory framework include a general disclosure obligation to allow investors, and potential investors, to evaluate the suitability of the CIS for that investor or potential investor?
3. Does the regulatory framework specifically require that the offering documents, or other publicly available information, include the following:
 - a) The date of issuance of the offering document?
 - b) Information concerning the legal constitution of the CIS?
 - c) The rights of investors in the CIS?
 - d) Information on the operator and its principals?
 - e) Information on the methodology of asset valuation?
 - f) Procedures for purchase, redemption and pricing of units?
 - g) Relevant, audited financial information concerning the CIS?
 - h) Information on the custodian (if any)?
 - i) The investment policy(ies) of the CIS?
 - j) Information on the risks involved in achieving the investment objectives?
 - k) The appointment of any external administrator or investment managers or advisers who have a significant and independent role in relation to the CIS (including delegates)
 - l) Fees and charges in relation to the CIS?
4. Does the regulatory authority have the power to hold back, or intervene, in an offering? For example, are there regulatory actions available in the event that the information is inaccurate, misleading or false, or does not satisfy the filing/approval requirements?
5. Does the regulatory framework cover advertising material outside of the offering documents, in particular does it prohibit false or misleading advertising?
6. Does the regulatory framework require that the offering documents be kept up to date to take account of any material changes affecting the CIS?
7. Does the regulatory framework require a report to be prepared in respect of a CIS's activities either on an annual, semi-annual or other periodic basis?
8. Does the regulatory framework require the timely distribution of periodic reports?
9. Does the regulatory framework require that the accounts of a CIS be prepared in accordance with high quality, internationally acceptable accounting standards?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1. Investment units may be offered to the public only if the fund manager had published a prospectus, a fund operating regulations and a simplified prospectus approved by the Supervision. The intended purpose of a simplified prospectus is to provide the investors with

an extract of the issue prospectus or fund operating regulations, to contain essential information only.

2.

The fund's prospectus which contains the fund's operating regulations and the simplified prospectus shall be supplied free of charge to any new investor when buying the fund's investment units. See also answer 1.

3.

The content requirements of a public-offer prospectus prepared for the public offering of investment units and the content requirements of investment funds' operating regulations are defined in CMA. The prospectus has to contain all information that enables the assessment of the operation, investment principles and management of the investment fund, as well as of the risks of investing in the said investment fund. The prospectus must not contain future promises but guarantees, or comparison with any other investment funds managed by other fund managers.

The regulatory framework specifically requires that prospectuses should include amongst others the followings:

- a) the date of issuance of prospectus
- b) information concerning the legal constitution of CIS
- c) the rights of investors in the CIS
- d) information on operator and its principals
- e) information on the methodology of asset valuation
- f) procedures for purchase, redemption and pricing of units
- g) relevant, audited financial information concerning the CIS
- h) information on the custodian
- i) the investment policy of the CIS
- j) information on the risk involved in achieving the investment objectives
- k) the appointment of any external administrator or investment managers or advisers who have a significant role in relation to the CIS
- l) fees and charges in relations to the CIS

The fund management company and the broker/dealer (or the broker/dealer acting as the syndicate leader where applicable) shall be subject to 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. The prospectus shall contain precise information concerning the person who/that is held liable for the contents of the prospectus or any part of it, including the name and address of this person and his role in the offering procedure. The liability of any person shall cover all information contained in the prospectus, as well as the lack of any necessary information.

A signed declaration of liability shall be annexed to the prospectus by all persons held liable under (see above). 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 assessment of the issuer or the person who has provided guarantees for the commitments embodied in securities and the securities to which it pertains.

4.

The Supervision shall refuse to grant authorization if the prospectus is not in conformity with the provisions of CMA and other legal regulations, or if the intended purpose of the

placement is to misuse some right, or if the broker/dealer or the issuer fails to comply with the measures specified by the Supervision.

5.

Any type of document - other than a prospectus or a public announcement - relating to an offer to the public of securities published by the issuer, the offeror, an investment service provider functioning as broker/dealer or underwriting subscription guarantees, or by the person requesting admission of the securities to trading on a regulated market for the information of investors, shall be considered an advertisement.

All documents specified above shall be clearly recognizable as advertisements. The information contained in an advertisement shall not be inaccurate, or misleading. This information shall also be consistent with the information contained in the prospectus.

The draft of all advertisements shall be submitted to the Supervision at least five business days before the conclusion of the marketing procedure or before the commencement of trading in a regulated market. The Supervision 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.

During the existence of a CIS the Supervision may - for a specific period of time but not more than ten days - order the suspension of the continuous issue of investment units of a particular series if the fund manager deemed necessary to protect the investors' interests.

7.

CIS operators shall be required to prepare biannual and annual reports in accordance with the provisions of CMA 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. CIS operators also shall be required to report monthly on the portfolios of the investment funds they manage

8.

CIS operators shall be required to prepare biannual and annual reports in accordance with the provisions of CMA 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 HFSA and make them available to the investors at the fund manager and the broker/dealer. CIS operators also 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 HFSA 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 units.

9.

There is a Government decree of accounting specialties of CIS. Also the national accounting law, which is in compliance with international accounting laws, should be applied in case of a CIS.

Principle 20 Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

Asset Valuation

1. Are there specific regulatory requirements in respect of the valuation of CIS assets?
2. Are there regulatory requirements that the net asset value of assets be calculated:
 - a) On a regular basis?
 - b) In accordance with high-quality, accepted accounting standards used on a consistent basis?
3. Are there specific regulatory requirements in respect of the fair valuation of assets where market prices are not available?
4. Are independent auditors required to check the valuations of CIS assets?

Pricing and Redemption of Interests

5. Are there specific regulatory requirements in respect of the pricing upon redemption or subscription of interests in a CIS?
6. Does regulation ensure that the valuations made are fair and reliable?
7. Does regulation require the price of the CIS be disclosed or published on a regular basis to investors or prospective investors?
8. Are there regulatory requirements, rules of practice, and/or rules addressing pricing errors? Are the relevant regulatory authorities able to enforce these rules?
9. Does the regulatory framework address the general or specific circumstances in which there may be suspension or deferral of routine valuation and pricing or of regular redemption?
10. Does the regulatory authority have the power to ensure compliance with the rules applicable to asset valuation and pricing? Is there evidence as to actions taken by the relevant regulatory authority in this area?
11. Does the regulatory framework require that the regulator:
 - a) Be kept informed of any suspension or deferral of redemption rights?
 - b) Have the power to take action, to demand, delay or stop the suspension or deferral of redemption rights?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
The net asset value of an investment fund shall be established and published by the custodian using the latest market prices relating to the fund's assets, following the detailed instructions set out in the fund's operating regulations.

2.
a) The net asset value of an open-ended investment fund and the net asset value per unit shall be established and published for each trading day, and shall be made available to the investors at all sales locations.

The net asset value of a close-ended investment fund and the net asset value per unit shall be established and published at least weekly, or at least monthly for close-ended real estate funds. 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.

The net asset value of an investment fund and the net asset value per units shall be published within two business days after it is established.

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.

b) The net asset value shall be determined using the latest market prices relating to the asset of a CIS.

3.

The detailed rules of net asset value calculation must be described in the prospectus / operating manual of a CIS. The method of valuation in case of non existence of market prices should be described amongst others.

4.

Independent auditors are required by the law to check the valuation of CIS assets.

5.

Redemption and subscription of units of a CIS is based on the daily net asset value of a unit. The par value of open-ended investment units shall be calculated based on the net asset value that applies to one investment unit. 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.

6.

Net asset calculation is done by the custodian The custodian is fully liable for the calculation.

7.

A public open-ended CIS must disclose its net asset value and net asset value per unit every business day.

8.

Pricing must be fair and accurate. Besides these there are no other requirements in the national law.

9.

The fund manager may suspend the continuous issue of investment units of a specific series of an open-ended investment fund, of which the Supervision 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 for the series in question 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.

Trading must be continued when the above-specified reasons are terminated or when so instructed by the Supervision.

10.

Yes. The Supervision has the right to impose fine on the custodian in case of breaching the rules of calculation of net asset value.

11.

a) See answer 9.

b) The Supervision may - for a specific period of time but not more than ten days - order the suspension of the continuous issue of investment certificates of a particular series if the CIS operator has failed to comply with the obligation of disclosure of information and/or when deemed necessary to protect the investors' interests.

Principle 21 Regulation should provide for minimum entry standards for market intermediaries.

Authorization

1. Does the jurisdiction require that, as a condition of operating a securities business, the market intermediaries (as defined above) be licensed?
2. Are there minimum standards or criteria that all applicants for licensing must meet before a license is granted (or denied) and that are clear and publicly available which:
 - a) Are fair and equitable for similarly situated intermediaries?
 - b) Are consistently applied?
 - c) Include an initial capital requirement, as applicable?
 - d) Include a comprehensive assessment of the applicant and all those in a position to control or materially influence the applicant that addresses “ethical attitude,” including past conduct, and appropriate proficiency requirements, such as, industry knowledge, skill and experience?
 - e) Include an assessment of the sufficiency of internal controls and risk management and supervisory systems in place, including relevant written policies and procedures?

Authority of Regulator

3. Does the relevant authority have the power to:
 - a) Refuse licensing, subject only to administrative or judicial review, if authorization requirements have not been met?
 - b) Withdraw, suspend or condition a license where a change in control or other change results in a failure to meet relevant requirements on an ongoing basis?
 - c) Take effective steps to prevent the employment of persons (or seek the removal of persons) who have committed securities violations or who are otherwise unsuitable from continuing to engage in intermediary activities, even if these persons are not separately licensed intermediaries if they can have a material influence on the firm?
4. Where licensing is the responsibility of a self-regulatory organization, is the process subject to appropriate oversight by the regulator?

Ongoing Requirements

5. Are market intermediaries required to update periodically relevant information with respect to their license and to report immediately to the regulator (or licensing authority) material changes in the circumstances affecting the conditions of the license?
6. Is the following relevant information about licensed intermediaries available to the public:
 - a) The existence of a license, its category and status?
 - b) The scope of permitted activities or identity of senior management and names of other individuals authorized to act in the name of the intermediary?
7. Does the regulator routinely monitor, investigate and enforce securities laws and regulations affecting intermediary activities?

Investment Advisers

8. Does the regulatory scheme for investment advisers require that:

- a) If an investment adviser deals on behalf of customers, the capital and other operational controls applicable to other market intermediaries also should apply to the adviser?
- b) If the adviser does not deal, but is permitted to have custody of client assets, regulation provides for the protection of client assets, including segregation and periodic or risk-based inspections (either by the regulator or an independent third party)?
- c) In the case of both (a) and (b), as well as advisers who manage client portfolios without dealing on behalf of clients or holding client assets, does regulation include:
 - i) Record-keeping requirements?
 - ii) Clear and detailed requirements setting out the disclosures to be made by the adviser to potential clients, including: descriptions of the adviser's educational qualifications, relevant industry experience, disciplinary history (if any), investment strategies, fee structure and other client charges, potential conflicts of interest, and past investment performance (if relevant)?
 - iii) Rules and procedures designed to prevent guarantees of future investment performance, misuse of client assets, and potential conflicts of interest?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.

Yes. The Act CXX of 2001 on the Capital Market (CMA) defines the types of market intermediaries (investment service providers, commodities brokers, investment fund managers). Jurisdiction (CMA) requires that market intermediaries before commencing its activities must be licensed (section 91. for investment service providers and commodities brokers, and section 229. for investment fund managers), and it contains the set of minimum clear and consistently applicable requirements.

The HFSA is responsible for evaluating equally and fairly the license application on the basis of the above mentioned requirements for each type of market intermediaries. There is also a registry of market intermediaries which is held by HFSA (section 391. paragraph (1)).

2.a), 2.b)

Yes. CMA, which is available publicly, contains the set of minimum requirements that are equitable and fairly applicable by HFSA for each type of market intermediaries. Within the scope of the license procedure, CMA includes among others:

2.c) a minimum initial capital requirement for each type of market intermediaries (section 90. for investment service providers and commodities brokers, and section 235. for investment fund managers), and

2.d) requirements for applicant's management including degree, experience, past conduct, and also poses disqualifying factors for them. Employment and appointment of persons who have committed securities violation or are otherwise unsuitable is prevented by jurisdiction (section 97-99., 356-357. for investment service providers and commodities brokers, and section 356.

for investment fund managers) and preconditions for authorizing the acquisition of a qualifying holding in an investment enterprise by the HFSA (section 106-107.).

2.e)

assessments for sufficient internal control, and risk management. CMA sets out a supervisory system including regulation for supervisory board, for HFSA, and for auditors (section 110., 358-363.377-378.).

3.a)

Yes. HFSA has the power to refuse licensing if market intermediaries fail to comply with the requirements laid down in the CMA 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 (section 95., section 233.).

3.b)

Yes. HFSA has also the power to revoke the license it has issued to authorize operations among others if the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time (section 96. paragraph (1), section 234.). HFSA may suspend the license 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 96. paragraph (3), section 234. paragraph (3)).

3.c)

Yes. Employment and appointment of persons who have committed securities violation or are otherwise unsuitable is prevented by jurisdiction (see answer 2.).

4.

Licensing is not the responsibility of self-regulatory organizations.

5.

Yes. Market intermediaries are due to meet permanently the licensing requirements and have to report to licensing authority the relevant changes in their activities, management, investments, owners, networks and relevant company events that affect licensing conditions (section 291. and 395.). Over and above that investment service providers, commodities brokers, investment fund managers shall be required to supply information to the HFSA concerning their operations and their transactions subject to the form, content and frequency requirements laid down in specific other legislation (11/2002., and 5/2004. Decree of the Financial Ministry).

6.a), 6.b)

Yes. Information about license (e.g. its category and status, scope of permitted activities) are available for the public on the website of HFSA. A registry of market intermediaries held by HFSA (section 391. paragraph (1)) also provides information about the market intermediaries.

7.

Yes. Market intermediaries should furnish at any time to HFSA at request any data relating to intermediaries activity (see also the answer 5.). Concerning the activity of the market intermediaries overall inspection has to be carried out in every two years by the HFSA, moreover can conduct also direct inquiry, which covers a special problem of activity, or general inquiry, which covers the same problem of activity could be conducted by the HFSA

(section 396.). The HFSA shall have powers to take measures and to impose sanctions (listed in the CMA, section 400.) 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 (section 399.)

8.a), 8.b), 8.c)

Yes. The activity of the investment adviser is qualified as investment service (section 81.), so even if an investment adviser is allowed to deal on behalf of customers or even if it is permitted to have custody of client assets, or if the advisers manages client portfolios without dealing on behalf of clients or holding client assets, the activities defined in the sections 81 shall be subject to licensing by the HFSA. Unless otherwise prescribed by law, investment services may be provided by investment enterprises and credit institutions (section 85.), so capital and other operational controls laid down in the CMA is to be followed (section 92. paragraph (2)-(4), section 115-116., section 120-121.).

Principle 22 There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.

1. Are there initial and ongoing minimum capital requirements for relevant market intermediaries?
2. Are the capital adequacy requirements structured to result in capital addressed to the full range of risks to which market intermediaries are subject, e.g., market, credit, liquidity, operational, and legal, including reputational, risks?
3. Are capital adequacy requirements sensitive to the quantum of risks undertaken; that is, does required capital increase as risk increases, e.g., in the event of large market moves?
4. Are capital standards sufficient to allow an intermediary to absorb some losses and to wind down its business over a relatively short period without loss to its customers or disrupting the orderly functioning of the markets?
5. Are relevant market intermediaries required to maintain records such that capital levels can be readily determined at any time?
6. Are the detail, format, frequency and timeliness of reporting to the regulator and/or the SRO sufficient to reveal a significant deterioration in the capital adequacy position of market intermediaries?
7. Is the financial position of the intermediary subject to audit by independent auditors to provide additional assurance that the financial position reflects the risk that the intermediary undertakes?
8. Does the regulator:
 - a) Regularly review market intermediaries' capital levels?
 - b) Take appropriate action when these reviews indicate material deficiencies?
9. Does the regulator have specific authority to impose restrictions on an intermediary's regulated business activities and more stringent capital monitoring and/or reporting requirements if an intermediary's capital deteriorates so as to endanger its capacity to fulfill its obligations or when it falls below minimum requirements? Is there evidence that the regulator exercises this authority?
10. Does the capital framework address risks from outside the regulated entity, for example from unlicensed affiliates or from off-balance sheet risks?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
Yes. Depending on the type of the market intermediaries different initial and ongoing minimum capital and prudential standards are applicable. The own equity of market intermediaries must not be smaller than the minimal amount of the initial capital.

2.
Yes. Initial capital requirements (section 90. for investment service providers and commodities brokers, and section 235. for investment fund managers), the ongoing capital adequacy (section 90. paragraph (4) and section 172. for investment service providers, section

172/A. for commodities brokers, section 235. paragraph (4) for investment fund managers) and prudential requirements are connected with market, credit, liquidity, operational country and legal risks (section 175.).

3.

Yes. Capital adequacy requirements are based on commercial book regulation, which needs to take into account the risks undertaken, and trigger the capital increase if it is required (section 175.) The investment service provider shall continuously monitor its exposures in connection with investment services provided to a client or a group of connected clients. 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. 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 margins. The aggregate amount of large exposures by an investment service provider must remain below eight times the amount of its solvency margin. (section 178.) Investment enterprises shall create general reserves from the ten per cent of their taxed profits prior to paying dividends (section 179.), and also has suit restrictions pertaining to long-term financial investments (section 180.-181.)

4.

Yes. 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 the amount of initial capital requirement, 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, or twenty-five per cent of the operating expenses of the previous fiscal year at any time. The investment enterprise must maintain a capital adequacy ratio of at least eight per cent to cover the risks associated with assets that are not listed in the trading book and with off-balance sheet items.

5.

Yes. Market intermediaries have to report to HFSA the relevant changes in their activities, management, investments, owners, networks and relevant company events (section 291. and 395.). Over and above that investment service providers, commodities brokers, investment fund managers shall be required to supply information to the HFSA concerning their operations and their transactions subject to the form, content and frequency requirements laid down in specific other legislation (14/2002., 11/2002., and 5/2004. Decree of the Financial Ministry).

6.

Yes. (see answer 5.)

7.

Yes. Investment enterprise and investment fund managers has to appoint an independent auditor (section 358.) who is obliged to audit the balance sheet, has to survey the activity, and also has to inform HFSA about relevant operational problems (section 360.)

8.a)

Yes. According to jurisdiction investment service providers, commodities brokers (section 92. paragraph (4) subparagraph a), and investment fund managers (section 230. paragraph (8) subparagraph a) are required to adopt registration system which ensures up to date information on its financial situation. HFSA also can review regular reports sent electronically by market intermediaries (11/2002., and 5/2004. Regulation of Minister of Finance).

8.b)

Yes. HFSA has the right to take actions if any capital deficiencies occur, and to require a more stringent capital monitoring and reporting system.

9.

Yes. If the amount of an investment enterprise's or a commodities brokers own funds falls below the minimum level the HFSA shall give a maximum of six months to satisfy the requirement. If an investment enterprise fails to comply with the recapitalization obligation within the deadline, the HFSA shall order the investment enterprise to reduce its subscribed capital to the level of its equity capital. Where applicable, concurrently with ordering the reduction of subscribed capital the HFSA shall amend the license of the investment enterprise in question, and shall limit its activities as consistent with the equity capital available (section 172, 172/A..) There is also a possibility for HFSA to apply a more stringent capital monitoring and reporting system. HFSA exercises this authority by making resolutions (section 400. paragraph (1) g))

10.

Yes. The investment enterprise subject to supervision on a consolidated basis or the financial holding company (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 (section 181/B paragraph (1)), shall comply on a consolidated basis with the consolidated companies with restrictions concerning large exposures, investments and real estate investments, shall continuously maintain a solvency index of at least eight percentage points 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 (section 181/D paragraph (1)-(2)).

The investment enterprise must also maintain a capital adequacy ratio of at least eight per cent to cover the risks associated with assets that are not listed in the trading book and with off-balance sheet items (section 175. paragraph (3)).

Principle 23 Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.

Management and Supervision

1. Is an intermediary required to have:
 - a) An appropriate management and organization structure?
 - b) Adequate internal controls?
 - c) Senior management that is required to bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the whole firm?
2. Is an intermediary required to cause an independent, periodic evaluation of its internal controls and risk management processes to be performed? Where the firm elects an evaluation performed by an independent auditor, is that auditor required to report material breakdowns in controls to senior management and to the regulator?

Customer Protection

3. Is the intermediary required to provide for an efficient and effective mechanism for the resolution of investor complaints?
4. If an intermediary has control of, or is otherwise responsible for, assets belonging to a customer which it is required to safeguard, are there regulations that require proper protection for them (for example, segregation and identification of those assets) by the intermediary? Do these measures facilitate the transfer of positions; assist in the orderly winding up in the event of financial insolvency and otherwise provide protection from misuse by the intermediary?
5. Is an intermediary required to obtain and retain basic information from a customer about concerns and issues involving investment objectives relevant to the service to be provided?
6. Is an intermediary required to “know its customer” before providing specific advice to a customer?
7. Can a customer obtain an agreement or contract or a written form of the general and specific business conditions that sets forth the terms on which the customer will be dealing?
8. Is an intermediary required to provide general or specific disclosures to customers of information needed to make a balanced and informed investment decision?
9. Is an intermediary required to provide a customer with a full and fair statement of account (and information regarding remuneration received by the intermediary for services provided to the customer)?

Internal Controls

10. Is the intermediary required to have a person or group of persons responsible for monitoring its compliance with legal and regulatory requirements as well as with its internal policies and procedures?
11. Is an intermediary required to create and maintain adequate and reliable book and records, including accounting records? Is the intermediary required to maintain those books and records in a way that allows full supervision by the regulator?

12. Is an intermediary required to establish and maintain appropriate systems of customer protection, risk management and internal and operational controls, including policies, procedures, and controls relating to all aspects of its business intended reasonably to ensure:
- a) An effective exchange of information between the firm and its clients, including required disclosures of information to clients?
 - b) The integrity of the firm's dealing practices, including the treatment of all clients in a fair, honest and professional manner?
 - c) The safeguarding of both the firm's and its clients' assets against unauthorized use or disposition?
 - d) The maintenance of proper accounting and other applicable records and the reliability of the information?
 - e) Compliance with all relevant legal and regulatory requirements?
 - f) Appropriate segregation of key duties and functions, particularly those duties and functions which, when performed by the same individual, may result in undetected errors or may be susceptible to abuses which expose the firm or its clients to inappropriate risks?
13. Is an intermediary required:
- a) To endeavor to avoid a conflict of interests arising between its interests and those of its customers or between its customers?
 - b) Where the potential for conflicts arise, to have mechanisms in place to ensure fair treatment of all its customers such as proper disclosure, internal rules of confidentiality, declining to act where conflict cannot be avoided?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

Yes. As a fundamental provision on organization in general, CMA requires market intermediaries to develop and operate an organization, and 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 to minimize the possibility of violation of investor interests, and to be transparent enough to permit control, monitoring and supervision, 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 to prevent the investment service provider or the commodities broker to use the securities, liquid assets and exchange-traded instruments of clients as their own in any way or form, or to use any confidential information pertaining to securities without proper authorization or for reasons other than they were intended (section 108.)

CMA requires intermediaries to structure their organization to contain separate divisions for the various activities arranged under a scheme to ensure a proper environment for the various divisions to operate independently and to appraise its activities, to reduce the possibility of misuse of any information accessed through internal administrative channels and the eventuality of any corruption among personnel, to strengthen the control procedures incorporated into operating procedures (section 109.).

To achieve these objectives, the divisional structure and the related internal procedures and solutions have been arranged to ensure that the various functions can operate separately, that access to information is allowed to authorized personnel only, that the heads of the divisions are not interdependent in any way or form, and ensure objectivity in the control procedures incorporated into operating procedures.

Addressing the extraordinary risk profile of certain activities, additional provisions of CMA regulate organizational issues of portfolio management, safe-keeping of securities and management of custody accounts for securities ((section 101.)

1.b)

Yes. CMA prescribes that market intermediaries must adopt an internal audit regime or create an internal audit department to:

- enforce the relevant legal provisions and regulations, internal bylaws, the resolutions of HFSA, and to improve efficiency in the licensed operations and to provide an adequate flow of information for management,
- control compliance with the relevant legal provisions, the HFSA resolutions and regulations, and to reveal any departures from regulations and any discrepancies
- permit the prevention of any unlawful or negligent conduct and to correct discrepancies

Regarding adequacy, CMA requires internal audit regimes to 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. However market intermediaries must have at least one internal auditor engaged in employment. Strict preconditions are set as well for the employees in charge of internal control, regarding relevant higher education and three years of professional experience, and no prior criminal record, similarly to executives mentioned above (section 110.).

Apart from the fundamentals of the internal control system of a market intermediary laid down in CMA, a further HFSA presidential recommendation sets the standards regarding the elements of an internal audit system, namely the built-in control in the processes, control by management, the independent internal audit organization, and the management information system.

1.c)

Yes. CMA clearly states that senior management (including individually chairpersons and members of the board of directors and of the supervisory board, executives of the market intermediary) is responsible for compliance with the relevant legal provisions, exchange and clearing house regulations, the HFSA's resolutions and internal regulations, moreover also 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 (section 111. paragraph (1)-(2).

All executive officers and employees of investment service providers and commodities brokers must, 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 111. paragraph (3).

Fund managers must, 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 (section 236. paragraph (2)).

2.

Yes. Intermediaries are obliged to hire an auditor. When auditing the annual account of an intermediary the auditor must additionally examine among other things listed in CMA, i.e.

- the conformity of risk management regimes;
- 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,
- 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
- the operation of the adequate controlling systems.

The auditor must record his findings in a separate supplementary report and send it to the board of directors, the managing director, the chairman of the supervisory board, and the HFSA as well (section 362.).

CMA defines cases when the auditor must promptly report findings to the management and the HFSA as well. Among these cases is when the auditor „ascertains that there are serious deficiencies or insufficiencies in the internal control regime of the investment enterprise”(section 360.).

3.

Yes. According to the Act CLV of 1997 on Consumer Protection financial organizations (which involve market intermediaries) must operate a customer service department for handling consumer correspondence, investigating and redressing complaints and for providing extensive information to consumers at a location which is open for customers. These organizations have establish the policy and business hours and have to provide the operating conditions of the customer service department without causing any detriments to the interests of consumers. The customer service must issue a written statement regarding the rejection of a complaint with an explanation attached, a copy of which shall be presented to the consumer or sent to the customer within 15 days. As part of the procedure of handling consumer correspondence and providing information to consumers, the customer service must cooperate with social organizations providing representation of consumer interests.

Concerning customer complaint resolution HFSA has obligations also in the resolution process of complaints submitted to HFSA. According to this, HFSA forward the written complaints it receives to the intermediary involved for further processing. The intermediary is required to take proper action to investigate the complaint/notice within thirty days, and it must inform the HFSA of the findings of its investigation. HFSA may request submission of the documents related to the case for the purpose of inspection.

4.

Yes. Market intermediaries must use their clients' funds and assets as instructed by the clients. They may not use the funds and assets of their clients as their own in any way or form.

Intermediaries 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.

Intermediaries must keep separate records of their clients' liquid assets and must handle them separately from their own liquid assets. Moreover, intermediaries managing individual portfolios must keep liquid assets recorded on the client 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.

Market intermediaries must handle their clients' investment instruments and exchange-traded instruments separately from their own investment instruments and exchange-traded instruments.

In any of the cases above measures do not facilitate transfer of positions.

Clients' receivables cannot be used for settling the debts of the market intermediary owed to creditors (section 209.).

The investment fund manager also must handle and keep records of the assets of the fund and clients separately from its own assets (section 239.).

Regarding the liquidation of a market intermediary, the securities deposited by clients, clients' liquid assets on client accounts, and the securities in the clients' securities accounts and custody accounts may not be included in the assets of the market intermediary. Any money claim of a client arising during the liquidation proceeding must be treated the same as the claim represented in the security, which it replaces (section 193.).

5.

Yes. See answer 6.

6.

Yes. Market intermediaries must check the financial reserves of their clients in terms of exposures. When checking the financial background of clients market intermediaries are entitled to request their clients to supply written information concerning their financial resources, and may demand to prove said financial information with documents (section 116.). Prior to entering into a contract involving derivative instruments, investment service providers and commodities brokers 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.

Additionally, in respect of investment enterprises, a decree of the Ministry of Finance defines the requirements on the obligatory bylaw on client rating. As a minimum, client ratings must be revised yearly if the investment enterprise is informed of anything that is supposed to affect the rating of a client.

7.

Yes. To provide investment services, or investment fund managing, market intermediaries have to declare their standard terms and standard service agreement concerning the services

they provide. Market intermediaries are required to post these documents in their customer areas, or shall supply them to the clients upon request. Where services are provided through electronic channels the documents must be posted in electronic format to permit easy access for clients at any given time (section 208.).

Market intermediaries must 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 (section 117). Contracts are required for all transactions, without exception.

Specific contents requirements are set by CMA for contracts for portfolio management.

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 (section 117.).

8.

Yes. Investment service providers and commodities brokers must 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 that concerns the transaction in question, 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.

Market intermediaries must inform their clients regarding any and all contractual fees and charges.

When accepting an instruction for futures or option transactions, the investment enterprise is obliged (with certain exceptions, e.g. if the client is an institutional investor) to issue a risk assessment statement and have it signed by the client in acknowledgement, or obtain some other form of verification from the client. The risk assessment statement must 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 (section 115.).

9.

Yes. In general market intermediaries must provide its customers with a full and fair statement of account in the way specified in their general business conditions. CMA requires market intermediaries, to attach their general business rules when applying for license. Mandatory elements of general business rules of market intermediaries are regulated by a government decree, which requires method, frequency of customer notification on statement of account, and costs charged for this to be included. In the licensing process, general business rules of the applicants are examined thoroughly by the HFSA.

In addition to the general requirements CMA explicitly requires portfolio managers to notify clients quarterly at least.

Regarding obligatory disclosure to clients on fees and charges see answer 8.

10.

Yes. See answer 1.b.

Further information: The internal control department (internal controller) of an market intermediary responsible to enforce the internal regulations adopted by the market intermediary, and 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 execute all duties conferred upon by legal regulation.

The internal control department has to send its report to the supervisory board and to the board of directors, to the supervisory board and the board of directors of the founder if it is a branch office, or to the equivalent organizations; and must ensure that its reports are available to the HFSA when requested.

11.

Yes. The procedures, systems and solutions adopted by investment service providers and commodities brokers must be sufficient to permit continuous monitoring and control of the records and accounts of securities, liquid assets and exchange-traded instruments of clients and to provide information at any given time concerning the balance of clients moneys, investment instruments and exchange-traded instruments entrusted to them (section 92.).

The accounting, registration and IT systems of investment fund managers must have sufficient facilities 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 (section 230.).

According to Act C of 2000 on Accounting, market intermediaries required maintaining adequate and reliable book, and there are special regulations concerning the annual accounts and bookkeeping obligations of the market intermediaries.

Besides of these, according to CMA, market intermediaries have to keep records of all dealings on their own account, agency contracts and consignments in sequence, in a uniform system. The records must contain facilities to determine as to whether a particular transaction was performed on own account or on behalf of a client. Market intermediaries have to retain all of the records on their activities on file for eight years from the date of settlement or termination of the contract to which they pertain.

Investment fund managers shall keep records of the assets of each investment fund and each client separately.

12.a)

Yes. See answer 6, 8 and 9.

Market intermediaries are required to establish and maintain an internal audit organization capable of ensuring to meet these requirements, as well as all the regulations in force affecting them.

12.b)

Yes. All executive officers and employees of market intermediaries must, at all times, act in a professional and workmanlike manner, and must handle their assigned duties with due care and attention as it is appropriate to best represent the interests of the market intermediary and that of the clients, in due compliance with the relevant legal regulation (section 111.).

Among enclosures required for license application sent to the HFSA, market intermediaries must attach drafts of the standard terms and conditions and standard service agreement, which serve as common ground for every client.

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 (section 118.).

Investment fund managers must act under the principle of equal treatment with respect to investor (section 236.).

12.c) Yes. Market intermediaries have to develop and operate an organization, and have to 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 – among other - 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 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 108.).

Among enclosures required for license application sent to the HFSA, market intermediaries must attach drafts of the internal regulations for handling money and valuables. In respect of securities custodian services intended to provide, drafts of internal regulations are required concerning security, account management and depository procedures.

12.d)

Yes. See answer 11.

12.e)

Yes. The procedures, systems and solutions adopted by market intermediaries must be sufficient to permit continuous monitoring and control of –among others - compliance with legal provisions and internal regulations (section 92.).

Market intermediaries have to maintain consistency and transparency in the application of their internal regulations.

12.f)

Yes. See answer 1.a. and 1.b.

13.a)

Yes. Market intermediaries are required to develop and operate an organization, 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 to minimize the possibility of any danger of conflicts of interest between the company and its clients, or among clients, to the detriment of clients

Regarding adequacy of the requirements on this matter, market intermediaries managing individual portfolios are required to act under the principle of equal treatment with respect to portfolios and clients. To ensure this they must develop and adopt rules on allocation, and rules for the prevention and handling of any conflict of interest. These documents are required for license application for portfolio management.

13.b)

Yes. See answer 1.a., 12.c. and 13.a.

An investment service provider and a commodities broker must refuse to provide service if

- a) a transaction involves insider trading or market manipulation,
- 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.

Principle 24 There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

1. Does the regulator have clear plans for dealing with the eventuality of a firm's failure, including a combination of activities to restrain conduct, to ensure assets are properly managed and to provide information to the market as necessary?
2. Are there early warning systems or other mechanisms in place to give the regulator notice of a potential default by a market intermediary and time to address the problem and to take corrective actions?
3. Does the regulator have the power to take appropriate actions: In particular, can it:
 - a) Restrict activities by the intermediary with a view to minimizing damage and loss to investors?
 - b) Require the intermediary to take specific actions, for example, moving client accounts to another intermediary?
 - c) Request appointment of a monitor, receiver, curator or other administrator or, in the absence of such power, can the regulator apply to the relevant authorities to take possession or control of the assets held by the intermediary or by a third party on behalf of the intermediary?
 - d) Require that relevant information concerning a firm's failure (i.e. a firm's trading status) be disclosed to the market?
 - e) Apply other available measures intended to minimize customer, counterparty and systemic risk in the event of intermediary failure, such as customer and settlement insurance schemes or guarantee funds?
4. Do the regulator's processes and procedures for addressing financial disruption include communication and cooperation with other regulators, both domestic and foreign, where appropriate, and is there evidence that contact arrangements are in place and that such cooperation occurs?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.
Yes. The HFSA has a plan for dealing with the eventuality of a firm's failure. HFSA has powers to take several measures and/or to impose sanctions in case of a financial difficulty of the market intermediary (section 400.). The HFSA may take these measures and impose sanctions repeatedly and collectively. Within the scope of this the HFSA may appoint one or more supervisory commissioners in a market intermediary. During the period of assignment of the supervisory commissioner the executives may exercise their right to sign only with the counter-signature of the supervisory commissioner. If there is no executive or person authorized to sign, the tasks of the executives and the right to sign have to be performed by the supervisory commissioner.

2.
Yes. Market intermediary are required to supply information to the HFSA concerning their operations and their transactions subject to the form, content and frequency requirements laid

down in the 11/2002., and 5/2004. Decree of the Financial Ministry (data supply on daily, monthly, quarterly and annual basis). Based on the data supplied, HFSA has established a data processing and storage system, which operates using algorithms, designed to detect inconsistency (e.g. client and company assets) in the data provided (simultaneously by the clearing house and the ISPs), check whether the trigger levels of various types set in the regulations (e.g. capital adequacy limits) are violated, and also reports the discrepancies to the off-site supervisor of the intermediary. The daily data supplies allow the HFSA to run the tests every day. The off-site supervisors assigned to the surveillance of a defined group of intermediaries are in charge of contacting the intermediary promptly when necessary.

3.a), 3.b), 3.c)

Yes. In particular, the HFSA has powers to take several measures and/or to impose sanctions, from which among others the followings may be relevant in case of a financial difficulty of a market intermediary (section 400.):

- issue an official demand for compliance within a specified deadline,
- order the suspension of all or part of investment services activities for a specified period of time;
- compel the intermediary to transfer its pending contractual commitments to another intermediary;
- delegate a regulatory commissioner.

3.d)

No. The HFSA cannot take such action, however HFSA is authorized to disclose all of its resolutions (obviously with respect for confidentiality provisions) and therefore if it takes measures in case of a failing intermediary, it must give reasons to the decision and will disclose the resolution and inform the public of the situation.

3.e)

Yes. The Investor Protection Fund established in 1997 has already provided compensation for investors several times. Membership in the Fund is mandatory for market intermediaries, as the Fund is funded by their annual and extraordinary contributions. The rules governing the operation of the Fund are in line with the Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes, except for the minimum amount of compensation in which case full compliance will be achieved by 2008. (section 210.-228.)

4.

Yes. The possibility of addressing financial disruption is envisaged, the HFSA's processes and procedures include communication and cooperation in this respect of foreign and domestic counterparts. They are to inform each other without delay if they learn of an incipient crisis relating to any institution supervised by either which has cross-border establishments or parent/head institutions in the respective other country. In the framework of bilateral cooperative arrangements such as MOUs, in each case there are identified contact persons of both parties involved, and there is evidence that when the need arises contact arrangements are in place and cooperation to solve problems and concerns is working. The HFSA is fully authorized member of IOSCO MMOU, and as such, qualifies for the standards set by IOSCO. In addition to this, HFSA has several bilateral MOUs in force regarding supervision of capital market.

Principle 25 The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.

Exchanges or Trading Systems, Subject to Regulation

1. Does the establishment of an exchange or trading system require authorization?
2. Are there criteria for the authorization of exchange and trading system operators that:
 - a) Require analysis and authorization of the market by a competent authority?
 - b) Seek evidence of operational or other competence of the operator of an exchange or trading system as a secondary market?
 - c) Require the operator of an exchange or trading system that assumes principal, settlement, guarantee or performance risk to comply with prudential and other requirements designed to reduce the risk of noncompletion of transactions (e.g., mandatory margin assessment and collection, capital or financial resources, member contributions, guaranty fund, credit or position limits)?
 - d) Permit the regulator to impose ongoing conditions (as appropriate) on the operator of an authorized exchange or regulated trading system, such as the obligation to establish rules, policies and procedures to prevent fraudulent behavior, treat all members or participants fairly, and have the capacity to carry out the market's and the competent authority's obligations?

Supervision

3. Does regulation require an assessment of:
 - a) The reliability of all arrangements made by the operator for the monitoring, surveillance and supervision of an exchange or trading system and its members or participants to ensure fairness, efficiency, transparency and investor protection, as well as compliance with securities legislation?
 - b) The market's dispute resolution and appeal procedures or arrangements as appropriate, its technical systems standards and procedures related to operational failure, information on its record keeping system, reports of suspected breaches of law, arrangements for holding client funds and securities, if applicable, and information on how trades are cleared and settled?
 - c) The mechanisms that must be in place to identify and address disorderly trading conditions and to deal with any contravening conduct that is detected, including details of procedures for trading halts, other trading limitations and assistance available to the regulator in circumstances of potential trading disruption on the system?

Securities and Market Participants

4. With respect to securities and market participants:
 - a) Is the regulator informed of the types of securities to be traded and does it approve the rules governing the admission of the securities to trading or listing?
 - b) Where applicable, does the regulator or the market take product and trading conditions into account in order to admit a product for trading?
 - c) Does the regulatory framework provide for fair access to the exchange or trading system through oversight of the related rules for participation?

Fairness of Order Execution Procedures

5. With respect to fairness of order execution procedures:
- a) Are order routing procedures clearly disclosed, applied fairly and not inconsistent with relevant securities regulation (e.g., requirements with respect to precedence of client orders and prohibition of front-running or trading ahead of customers)?
 - b) Are execution rules disclosed to the regulator and to market participants, and consistently applied to all participants?
 - c) Where applicable, does the regulator review the trade matching or execution algorithm of automated trading systems for fairness?

Operational Information

6. With respect to trading information:
- a) Do similarly situated market participants have equitable access to market rules and operating procedures?
 - b) Are there adequate arrangements for transparency?
 - c) Are adequate records (i.e., audit trails) available to reconstruct trading activity within a reasonable time?
 - d) Is the system capable of disclosing the types of information that it is designed to make available, and, conversely, of providing safeguards to preserve the confidentiality of other information, the disclosure of which is not intended?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.

Yes. The only trading system exists in the Hungarian market operated by the Budapest Stock Exchange (BSE). Alternative trading systems do not operate in Hungary.

CMA regulates the establishment/foundation, organization, operation and dissolution of the trading system, additionally contains the main and basic rules, minimum standards of the exchange market transactions. According to these rules, the establishment and operation of an exchange requires the authorization of HFSA.

2.a)

Yes. CMA contains the criteria for the authorization. Authorization procedure contains market analysis (examination of the proposed exchange market operations, in particular the instruments planned to be traded, types of transactions, trading mechanisms, settlement systems and mechanisms, data processing and records, and data protection solutions; in case of electronically trading system facilities of the computer system, etc.).

2.b)

Yes. The criteria for the authorization contain assessment of the competence of the operator of the exchange. The competence of the operator is an ongoing requirement.

2.c)

Yes. According to the CMA there are prudential and other requirements designed to reduce the risk of non completion of transaction, e.g. initial and ongoing capital requirements, liability insurance requirements, and according the internal rules of exchange, it has mandatory to collect member contributions (initial fee and recurring fees), determine capital or positions limits. As the KELER is responsible for the clearing and settlement, it has the mandatory to assess and collect margin, to establish guarantee funds, etc.

2.d)

Yes. The CMA contains the legal framework of the internal regulations of the exchange, and in the scope of it, exchange have to define its own rules, policies and procedures designed to prevent fraudulent behavior, treat all members or participants fairly. According to the CMA internal regulations of the exchange may not contain any provisions which discriminate market participants. HFSA has a permission to examine these ongoing conditions, and the capacity of the exchange to carry out the markets and the HFSA's obligations.

3.a)

Yes. All internal regulations of the stock exchange are subject to the HFSA's approval. During the approval process the HFSA reviews the reliability of arrangements made by the exchanges for monitoring, surveillance and supervision the trading system and its members or participants for the sake of ensuring fairness, efficiency, transparency and investor protection as well as compliance with securities legislation, and also entitled to check the compliance on an ongoing basis via inspection (monitor trading conduct, supervise system, identify and address disorderly trading conditions, deal with non compliant conduct).

3.b)

Broadly yes. The internal rules of exchange contain the rules of appeal procedures, but there aren't rules or mechanism about market's dispute resolutions. According its internal rules, BSE has to report to the HFSA the suspected breaches of law. Regulation requires an arrangement its technical system standards and procedures related to operational failure and information on its record keeping system. As in Hungary the clearing and settlement made by the KELER, its internal rules have to contain information about it (the internal rule of exchange only refers to the KELER's rules), and the rules of the holding client funds and securities (in harmony with the provisions of CMA).

3.c)

Yes. The detection of disorderly trading conditions, contravening conduct and unusual transactions on the stock exchange is ensured by its trading system, which is capable to support the stock exchange's supervisory functions - market management and monitoring - in an automated way. In its internal rules BSE regulates the procedures of trading halts and other trading limitations in case of any potential trading disruption on the system, besides of these any unusual event is to be reported immediately to the HFSA.

There is a mechanism in place at the HFSA too to identify and address disorderly trading conditions, contravening conduct and unusual transactions and to ensure that contravening conduct, when detected, will be dealt with.

4.a)

Yes. As the types of securities and other products to be traded on exchange and the rules of listing criteria and admission of products are laid down in internal regulations of exchange, HFSA well informed about it and as we mentioned above, internal regulations of the stock exchange are subjects to the HFSA's approval. Besides of these, listing of securities to the trading system is subject to the HFSA's prior licensing, the criteria of these are laid down in the CMA. Should the license be given by the HFSA the Issuer has to apply to the stock exchange for authorization according to the internal rules of its.

4.b)

Yes. The HFSA approves the rules, terms and conditions governing the proper trading of the product in the interest of reduce the susceptibility of products to market abuses.

4.c)

Yes. The CMA provides the legal framework for fair access to the exchange. These are follows:

The adopted trading system has to provide sufficient facilities to ensure equal treatment to all participants in connection with the same services provided as part of trading operations; has to

ensure a fair and reliable background for trading and ensure that transparency of transactions and prices is implemented.

The internal rules of exchange may not contain any provisions opposite of these.

The CMA determines the criteria of entering to the exchange, and BSE is entitled to define additional criteria in its internal rule on Section membership.

An application for concluding a section membership agreement may only be rejected on the grounds that it fails to comply with the provisions of law or the terms of an Exchange Rule. The exchange is required to enter into a contract with an applicant who satisfies the requirements laid down in CMA and own internal rules.

HFSA has the power to check the compliance with these rules mentioned above on an ongoing basis; internal regulations of the stock exchange are subjects to the HFSA's approval.

5.a)

Yes. The order routing procedures are clearly disclosed in CMA, and in accordance with it, in the general terms and conditions of the market participants. The CMA definitely requires the precedence of client orders and prohibits i.e. the front running and trading ahead of customers. The HFSA inspect the compliance with these rules on an ongoing basis.

5.b)

Yes. Both CMA and internal rules of exchange are disclosed to all participant (e.g. internal rules are disclosed on the official website of the stock exchanges), so all market rules and operating procedures are equitable accessible and consistently applicable to or by the market participants.

5.c)

The trading regulation of BSE which is subject to prior approval of HFSA contains the trade matching algorithm of automated trading system in detail. During the approval procedure the main focus is on how this internal regulation complies the Hungarian legislation. Consequently the approval procedure concentrates mainly on the text of the trading regulation. As far as the IT implementation of these internal rules concerned the HFSA faces an urgent challenge. Summing up the essence, the practical incorporation of the trading rules of BSE into the IT environment (into the so called MMTS) i.e. the technical implementation of the approved regulation has remained outside of the on site examinations of HFSA so far.

6.a)

Yes. The CMA as an act is publicly available for every market participant. Further market rules and operating procedures are laid down in internal rules of BSE are available both at the website of the exchange and at the official publication sites (in details see under).

6.b)

Yes. Both in the CMA and in internal rules of exchange there are adequate arrangements for transparency. According to the CMA, the exchange has to publish its internal regulations and any amendments following approval by the HFSA by way of the official publication sites, which are follows:

- a) in a daily newspaper of nationwide circulation; or
- b) on the website of the issuer, and of the broker/dealer, if applicable; or
- c) on the website of the regulated market where the securities in question are traded; or
- d) on the Commission's website, if the Commission provides such service in compliance with the obligation of publication prescribed in this Act.

Besides of these, the place and procedure of its own publication is ruled by the Bylaws of the stock exchange on Exchange Regulation Procedures and on the Rules of Official Publication. According to this, the official place of publications by the stock exchange is its website,

which is a uniform and secure electronic system of forwarding and storing data. The Web Site is available via Internet, accessible for each market participant.

About transparency of trading please see the explanation under principle 27.

6.c)

Yes. The applied trading system must ensure the record and archive offers and transactions (the stock exchange itself has been maintaining records of all transaction data since the re-establishment of it in 1990), and the HFSA checks it in a timely basis.

6.d)

Yes. According to the CMA the system must be capable for make exchange information available to the public, but the data management system must satisfy the requirements of reliable data protection. The exchange take steps to encrypt the data provided as required in the Publication Guide in order to minimize the risks associated with the provision of data.

Principle 26 There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.

1. Does the regulatory system include:
 - a) A program whereby the regulator or an SRO, subject to oversight by the regulator, monitors day-to-day trading activity on the exchange or trading system (through a market surveillance program), monitors conduct of market intermediaries (through examinations of business operations) and collects and analyzes the information gathered through these activities?
 - b) Regulatory oversight mechanisms to verify compliance by the exchange or trading system with its statutory or administrative responsibilities, particularly as they relate to the integrity of the markets, market surveillance, the monitoring of risks, and the ability to respond to such risks?
 - c) Provides the regulator with adequate access to all pre-trade and post-trade information available to market participants?
2. Does the regulatory framework require that amendments to the rules of the exchange or trading system must be provided to, or approved by, the regulator?
3. When the regulator determines that the exchange or trading system is unable to comply with the conditions of its approval, or with securities law or regulation, is there a mechanism that permits the regulator to:
 - a) Re-examine the exchange or trading system and impose a range of actions, such as restrictions or conditions on the market operator?
 - b) Withdraw the exchange or trading system's authorization?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

Yes. Both the HFSA and the BSE monitor day-to-day trading activity on the exchange and collect information automatically. This supervisory function is supported in an automated way by the trading system of exchange, called Multi Market Trading System (MMTS). BSE has a module in its monitoring software to discover suspicious actions. If any irregularities are to be found the case is referred to the HFSA or an investigation is conducted by the BSE itself. At the HFSA there is an online MMTS module too, so the HFSA also may filter the deals suggesting price manipulation or insider trading. If any irregularities are to be found the HFSA has the power to conduct an investigation immediately. Besides of this there is a Reuter's monitor at the HFSA so it may collect data from it too.

HFSA monitors the business operations of market intermediaries on a routine basis and on a particular inquiry too. The market intermediaries with different content and frequency provide

reports to the HFSA concerning their business activities. They accomplish daily, weekly, monthly, quarterly and yearly reports to the HFSA in the frame of the regular off site reporting (according to Ministry of Finance Decree No. 5. of 2004 on the HFSA reporting obligatory on the investment service providers, the foreign branches of an investment service provider established or registered abroad concerning their business and investment service providing activity and on the investment firms and credit institutions concerning the running of trading book, on the commodities brokers and the clearing corporations concerning their service activity).

KELER also must submit reports to the HFSA on a daily basis about the positions of clearing members (including non performing members and members forwards apply obligatory measurements).

The data provided institutions and data provided KELER are processed by the Complex IT System of the HFSA. The system calculates index numbers and sends messages automatically to the supervisors, who evaluate it's on a daily basis.

1.b)

Yes. The HFSA inspects the exchange on a regular basis (or when it is necessary) on the basis of its inspection plan, which includes both on-site and off-site elements. This oversight mechanism verify compliance by the exchange with it statutory or administrative responsibilities. The representative of the HFSA takes part on the sessions of exchange Board of Directors (on a monthly basis) and has the power to propose arrangements or protest against its in the interests of integrity of market, market surveillance, the monitoring risk, etc.

1.c)

Yes. As we mentioned above, HFSA has an online connection to the trading system of the exchange, which provides an adequate access to all pre-trade and post trade information.

2.

Yes. All internal regulations of the exchange and amendments of its need to be approved by the HFSA prior coming to force. This includes introduction of new trading system as well. The representative of the HFSA takes part on the sessions of exchange Board of Directors regularly and in this way there is the possibility to get informed on all such efforts in time.

3.a)

Yes. If the HFSA determines that the exchange is unable to comply with the conditions of its approval or with securities law or regulations, according to the CMA it has the power to re-examine the exchange and impose restrictions or conditions on the exchange. Restrictions are follows: (HFSA has the power to)

- suspend of the whole trading activities, or the specific exchange-traded instruments, the specific types of instruments,
- order the suspension of all or part of exchange market operations for a fixed period of time;
- order the suspension of trading on an exchange section or all trading operations on the exchange for a specific period of time.
- prohibit the exchange from continuing any unlawful activity, order the exchange to draw up new regulations or adopt a new resolution;

Conditions and other actions are follows: (HFSA has the power to)

- issue an official demand to the exchange, and to their executive officers and employees for compliance within the deadline specified with the criteria prescribed by law and/or in

- internal regulations and/or in the authorization concerning the exchange market operations and shall also admonish it at the same time;
- initiate the dismissal of an executive employee or the auditor of the exchange or initiate disciplinary action against an employee;
 - compel the executive board of the exchange, to call an extraordinary general meeting, and may specify the mandatory agenda for such sessions;
 - instruct the exchange to draw up a restoration plan within the prescribed deadline, and submit it to the HFSA;
 - order the exchange to disclose specific data or information;
 - delegate a regulatory commissioner to the exchange;
 - impose fines in the cases and in the measure prescribed by law;
 - ban, restrict or impose conditions for the exchange
 - 1. in their payment of dividends,
 - 2. in any payment made to an executive officer,
 - order the exchange
 - 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;

3.b)

Yes. According to the CMA, the HFSA has the power to withdraw the exchange's authorization if

- it was obtained by misleading the HFSA or through any other illegal conduct;
- the conditions and requirements based on which it was issued are no longer satisfied, and cannot be remedied within a reasonable period of time;
- 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;
- the exchange retires from the activity to which the license pertains;
- 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;
- 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;
- 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.

Principle 27 Regulation should promote transparency of trading.

1. Does the regulatory framework include:
 - a) Requirements or arrangements for providing pre-trade (e.g., posting of bids and offers) and post-trade (e.g., last sale price and volume of transaction) information to market participants on a timely basis?
 - b) Requirements or arrangements that information on completed transactions be provided on an equitable basis to all participants?
2. Where an authorized exchange or trading system's operator permits derogation from the objective of real-time transparency, are:
 - a) The conditions clearly defined?
 - b) Does the operator and/or the regulator have access to the complete information to be able to assess the need for derogation and if necessary, to prescribe alternatives?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1.a)

Yes.

According to CMA the trading system has to be able to ensure equal treatment to all exchange dealers in connection with the same services provided as part of trading operations, 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 HFSA. In scope of this legal framework, the internal rule of exchange on Code of Trading ensures timely access to pre-trade and post-trade information on an equitable basis for its members (e.g. the order book, which is an electronic register designed to structure systematically the orders that may be entered continuously access to all Section Members. When an exchange deal is concluded, the trading system will make at least the following data accessible for section members: name of the exchange product, specification of the security board; identification of quantity; identification of price; names of the buyer and the seller).

1.b)

Yes. According to the CMA, the exchange shall facilitate sufficient publicity of exchange information in order to keep intermediaries and investors properly informed. Publicity may be accomplished by the exchange itself or by another organization under contract. 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 (according to BSE's internal rule it is twenty minutes), but 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 (delayed trading data and the end day stock are available on the website of BSE, the end day stock are available in the official paper of HFSA too, on paper base and by electronically too). Information generated during trading on BSE reaches its end-users (professional and private users, analysts and the media) through authorized information distributors (data vendors). With the exception of the real-time values of the BUX and BUMIX indices, only those end-users can receive real-time data who have concluded a subscriber agreement regarding BSE

data with an information distributor. This kind of data is liable to monthly variable fees. End-users can access real-time data only in a controlled environment, following proper registration and identification procedures. Information distributors can disseminate real-time BUX and BUMIX values, as well as delayed and end-of-day trading data to end-users without the obligation of signing subscriber agreements and free of any charges. These data can also be displayed freely on the distributor's own public Internet pages.

BSE is keen on ensuring equal treatment to all its information distributor partners in every respect. The principal means to fulfill this objective is the standard, modularly structured information distribution agreement.

2.a)

Yes. There are only few cases when exchange permits derogations from the objective of real time transparency considering pre-trade information, like SPREAD orders, Negotiated Deals, AUCTION order. The trading system marks the transactions resulting from these deals and orders distinctively and makes them available as information on all Section Member Trader Workstations.

The conditions of derogations are clearly defined in internal rules of the exchange.

2.b)

Yes. As the HFSA oversight the whole capital market included the activity of exchange, it has access to the complete information about market, market trends and the regulation of the exchange, so HFSA is able to assess the need for derogation and has the power to prescribe alternatives.

Principle 28 Regulation should be designed to detect and deter manipulation and other unfair trading practices.

1. Does the regulatory system prohibit the following with respect to securities admitted to trading on authorized exchanges and regulated trading systems:
 - a) Market or price manipulation?
 - b) Misleading information?
 - c) Insider trading?
 - d) Front running?
 - e) Other fraudulent or deceptive conduct and market abuses?
2. Does the regulatory approach to detect and deter such conduct include an effective and appropriate combination of:
 - a) Direct surveillance, inspection, reporting, such as, for example, securities listing or product design requirements (where applicable), position limits, audit trail requirements, quotation display rules, order handling rules, settlement price rules or market halts complemented by enforcement of the law and trading rules?
 - b) Effective, proportionate and dissuasive sanctions for violations?
3. Are there arrangements in place for:
 - a) The continuous collection and analysis of information concerning trading activities?
 - b) Providing the results of such analysis to market and regulatory officials in a position to take remedial action if necessary?
 - c) Monitoring the conduct of market intermediaries participating in the market?
 - d) Triggering further inquiry as to suspicious transactions or patterns of trading?
4. If there is potential for domestic cross-market trading, are there inspection, assistance and information-sharing requirements or arrangements in place to monitor and/or address domestic cross-market trading abuses?
5. If there are foreign linkages, substantial foreign participation, or cross listings, are there cooperation arrangements with relevant foreign regulators and/or markets that address manipulation or other abusive trading practices?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1. With the 2005. July modification of the relevant legislation, the Hungarian regulatory framework is in line with the EU standard. As a result of the amendments the supervisory audits will be more effective and also the prevention of market misconduct. Accordingly, the definitions for insider trading, insider individuals and market manipulation have been introduced and their scope broadened. It is the duty of the HFSA to pursue all illegal cases that have been committed in the territory of Hungary, even in case when the subject is a financial instrument introduced in the regulated financial market of another member state or

when a financial instrument introduced in a regulated Hungarian market is used to commit an act abroad with potential for domestic impact. Market manipulation is defined more broadly and also the definition of financial instrument has been enlarged. A list of individuals with potential insider information must be kept and – upon request – must be provided to the HFSA.

2.

The law regulates in detail the international relations of the HFSA in case of insider trading and market manipulation and details the sanctioning, injunction and registry rules. The HFSA may impose a fine on the individual committing insider trading or market manipulation.

The fine may be levied until up to 5 years from the time it was committed (which is longer than the normal 3 years for other misconduct).

The amount of the fine is outlined in the legislation and is much greater than in general cases.

3.

Financial institutions must provide information on any transaction in which they are involved and any account they operate upon the written request of investigation authorities, the national security service and the public prosecutor's office if it is alleged that the transaction or the account can be linked to insider trading or market manipulation. In such cases the client must not be notified of the transfer of data.

In order to perform its duties the HFSA is authorized to keep records of data of insider persons, data of persons implicated in or investigated by the HFSA in connection with insider trading or market manipulation.

4.

Not applicable

5.

Bilateral cooperation agreements or MoUs provide the mechanism for consultation. The HFSA has signed MoUs with over forty countries, and past evidence shows that when needed these cooperation agreements work smoothly as required.

Principle 29 Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.

Monitoring of Large Positions

1. Does the market authority have a mechanism in place that is intended to monitor and evaluate continuously the risk of open positions or credit exposures that are sufficiently large to expose a risk to the market or to a clearing firm that includes:
 - a) Qualitative or quantitative trigger levels appropriate to the market for the purpose of identifying large exposures, continuous monitoring and an evaluative process?
 - b) Access to information, if needed, on the size and beneficial ownership of positions held by direct customers of market intermediaries?
 - c) The power to take appropriate action against a market participant that does not provide relevant information needed to evaluate an exposure (e.g., require liquidation of positions, increase margin requirements and/or revoke trading privileges)?
 - d) The general power to take appropriate action, such as to compel market participants carrying or controlling large positions to reduce their exposures or to post increased margin?
2. Do arrangements, whether formal or informal, exist to enable markets and regulators to share information on large exposures of common market participants or on related products with regulators and markets:
 - a) In the domestic jurisdiction?
 - b) In other relevant jurisdictions?

Default Procedures – Transparency and Effectiveness

3. Does a market authority make its default procedures available to market participants, including specifically information concerning:
 - a) The general circumstances in which action may be taken?
 - b) Who may take it?
 - c) The scope of actions which may be taken?
4. Do default procedures and/or national law permit markets and/or the clearing and settlement system(s) promptly to isolate the problem of a failing firm by addressing its open proprietary positions and positions it holds on behalf of customers or otherwise protect customer funds and assets from an intermediary's default under national law?
5. Is there a mechanism by which market authorities for related products can consult with each other in order to minimize the adverse effects of market disruptions?

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

1. The HFSA has a mechanism in place that is needed to monitor and evaluate those open positions or credit exposures that may expose a risk to the market. The HFSA monitors the

size of positions on the market. Investment service providers must submit regular reports to the HFSA. In addition, the Central Clearing House and Depository (KELER) also must submit reports on the positions of clearing members and their direct customers.

The HFSA has the power to take appropriate actions, such as to direct market participants to rectify their reporting, to request the provision of further information, to impose fines or to suspend or revoke trading privileges.

2.

Besides the HFSA, the National Bank of Hungary (NBH) also collects information on financial sector participants and instruments for monetary policy purposes. In the framework of the so-called Stability Pact, the HFSA, the NBH and the MoF undertake regular information sharing.

Bilateral cooperation agreements or MoUs provide the mechanism for consultation. The HFSA has signed MoUs with over forty countries, and past evidence shows that when needed these cooperation agreements work smoothly as required.

3.

In case of insolvency or other operating disturbance of a market participant, the HFSA may take the relevant default procedures, the scope of which are exactly determined by the CMA.

4.

According to the CMA, the funds and securities demanded for security of the settlement must sharply segregate on the account of a clearing member. In the event of a clearing member's failure to perform, all these funds and securities recorded by the clearing house as the property of the said clearing member have to serve to cover its transaction. KELER created its system of collaterals to be able to use all collaterals of a member in default (cash and securities) to settle the transaction before requiring the other clearing members to provide additional cover to the same default.

5.

Not applicable

Principle 30 Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.

Fully Implemented Broadly Implemented Partly Implemented Not Implemented

Legal background

Central Clearing House and Depository (Budapest) ("KELER") is a clearing house operating on the basis of Act CXX of 2001 on the Capital Market (the "Capital Market Act"), and Act CXII of 1996 on Credit Institutions and Financial Undertakings (the "Banking Act").

KELER pursues its activities on the basis of the aforementioned laws, its regulatory documents, as well as the provisions of the resolutions of the State Financial Supervision (the "Supervision").

With its Resolution No. 33001/1994, the Supervision designated KELER to fulfill central depository activities in Hungary.

KELER as a central depository executes the issue of securities codes and the central registration of securities on the basis of the Capital Market Act, Min. Fin. Decree No. 37/1996 (XII.28.), and Resolution No. 33001/1994 of the Supervision.

On the basis of the Capital Market Act and Government Decree No. 284/2001 (XII.26.), KELER performs a comprehensive service concerning dematerialized securities. In respect of dematerialized securities, it keeps central securities accounts and securities accounts as specified in the Capital Market Act.

As a depository, KELER's Depository performs the physical safekeeping and custodianship of the securities deposited in the Depository, and in respect of physical and dematerialized securities it renders the services specified in the General Business Rules of the company.

In respect of the persons using the services of its Customers, KELER acts as a sub-depository in the case of physical securities.

Since 1 January 2004, KELER has been operating as a specialized credit institution, therefore in accordance with the provisions of the Capital Market Act and the Banking Act it is authorized to execute the financial service activities of providing credits and loans and performing the related money turnover services.

Functions

KELER acts as the National and Central Securities Depository of Hungary, licensed as a specialized financial institution. It provides clearing and settlement services to the Budapest Stock Exchange (BSE), the Budapest Commodity Exchange (BCE), and the OTC market. KELER acts as central counterparty and guarantees financial settlement on the cash and derivative markets of the BSE and the BCE.

KELER keeps securities accounts for both banks and brokerage companies, but it keeps cash accounts for the brokerage companies only. The CSD is responsible for allocation of securities ISINs, central securities database functions and registration of dematerialized securities.

Additionally, in competition with other market players KELER provides cross-border settlement and custody services (both for local and foreign investors) and also provides registry and paying agent services for several issuers.

Types of instruments

The following instruments are eligible for deposit at KELER:

- equities
- bonds (government and corporate)
- T-bills
- investment fund notes

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

Eligible securities are either dematerialized or immobilized in KELER's system. However all publicly issued securities must be in dematerialized form as of January 1, 2005.

KELER does provide safekeeping services for physical certificates but once they are delivered into KELER the transfer of securities within the CSD is affected via book-entry. Nevertheless, physical transfer of securities is also available upon request.

Settlement

Trades concluded on the BSE are matched and forwarded to KELER by the exchange. No further matching is performed by the CSD.

Off-exchange DVP settlements are based on participants' settlement instructions. These instructions are to be matched in KELER's system. The matching process begins immediately in real time after an instruction is received into the system even prior to the requested settlement date. The following matching criteria are applied:

- Counterparty
- Underlying security
- Quantity of security
- Settlement amount
- Settlement date

With respect to the settlement amount criterion a tolerance limit is recognized by the system.

Free of payment securities transfers do not require matching.

The regulatory system is transparent, the laws and regulations are consistent. The regulations meet the criteria in terms of the legal status, the operation and the securities transactions undertaken by KELER.
