CONFLICT OF INTEREST PRINCIPLES for the investment services
performed by the Hungarian State Treasury (POLICY)

1. Purpose of the regulation

The purpose of this policy (hereinafter referred to as: policy) is to define the framework and principles which facilitate the identification, handling and (if necessary) disclosure of any conflicts of interest in order to ensure full compliance with the legal regulations applicable to Hungarian State Treasury (hereinafter referred to as: Distributor). The Conflict of Interest Principles Policy summarizes the circumstances that may lead to a conflict of interest and which may have adverse consequences for the client. The Conflict of Interest Principles Policy contains a summary description of the policy provided for in the Investment Services Act but does not fully cover the policies and policies used by the Distributor in its investment service and ancillary service activities.

2. Scope of the regulation

The scope of this regulation encompasses all investment and ancillary services delivered by Distributor in accordance with and authorized by Section 76(2)(c) of Act CXCV of 2011 on Public Finances, as well as the clients of Distributor and the employees of the persons/organizations performing activities outsourced by the Distributor.


Employed: a natural person, who working in the legal relationship with the Distributor

Relevant Person: in the Distributor's context, one of the following:

- The Distributor's Director, his companion or its equivalent, managing director or pending agent;
- The Director, or his companion or its equivalent or managing director, of the Distributor's pending agent;
- The employed of Distributor or pending agent, or any natural person, who makes his services available to and controlled by the Distributor or his Pending Agent and who is involved in the Distributor's investment services and activities;
- a natural person who is directly involved in the service provided to the Distributor or Pending Agent by an outsourcing solution designed to perform the Distributor's investment services and activities.

Person in a family relationship with a relevant person:

- the spouse or partner of the relevant person who, under national law, is equivalent to the spouse;
- a dependent child of a relevant person or a foster child;
- any relative of the relevant person who has been living in a household for at least one year at the time of the personal transaction.

4. Definition of conflict of interest
A conflict of interest adverse for the client may occur in case the Distributor or an other client gains financial advantage at the expense of the client in the course of using the specific investment service or ancillary service.

The following instances should be treated as conflicts of interest: where there is a conflict between the interests of the Distributor or certain persons connected to the Distributor or the duty the Distributor owes to a client; or between the differing interests of two or more of its clients, to whom the Distributor owes in each case a duty.

Taking into account the interests of all Customers of the Distributor, it defines and introduces appropriate remuneration policies and practices in accordance with internal procedures to ensure that customers are treated equitably and that their interests are not harmed by the Distributor's short-, medium- and long-term remuneration practices. The Distributor has developed its remuneration policy and practice in such a way as to avoid the creation of a conflict of interest or incentive effect that causes relevant persons to bring their own interests or the interests of the Distributor to any disadvantage of any customer.

The Distributor shall maintain and operate effective organizational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest a possible one adversely affecting the interests of its clients.

Due to the narrow scope of activities, the possibility of conflict of interest might primarily arise between employees providing investment and ancillary services and the clients, as well as between the Distributor and the interests of the clients. It is therefore necessary to provide for rules to ensure that such conflicts do not adversely affect the interests of their clients.

4.1 Cases of conflict of interest

4.1.1. Conflicts of interest potentially adverse to a client - rules applicable to relevant persons

Distributor shall ensure that, for the purposes of identifying the types of conflict of interest that arise in the course of providing investment and ancillary services or a combination thereof and whose existence may damage the interests of a client, it will take into account, by way of minimum criteria, the question of whether the Distributor or a relevant person, or a person directly or indirectly linked by control to the Distributor, is in any of the following situations, whether as a result of providing investment or ancillary services or investment activities or otherwise:

a) the Distributor or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the client;

b) the Distributor or that person has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;

c) the Distributor or that person has a financial or other incentive to favor the interest of another client or group of clients over the interests of the client;

d) the Distributor or that person carries on the same business as the client;

e) the Distributor or that person receive or receive an incentive from a customer other than the customer in cash or in kind or as a service in connection with the service provided to the customer.

4.1.2. The relationship of remuneration and conflict of interest

The Distributor shall ensure that its remuneration policy and practice are applicable to any investment and ancillary services provided by the Distributor or to the Distributor's conduct,
irrespective of the type of customers, directly or indirectly to any relevant person who has an influence which may influence the remuneration and potential remuneration of those persons in addition to its similar incentives, it may induce those persons to take action against the interests of any of its clients. The Distributor ensures that remuneration and other incentives can not be based exclusively or predominantly on quantitative business considerations but fully takes into account the quality criteria that reflect applicable law, fair management of customers and quality of service to customers. The structure of remuneration created by the Distributor (with regard to the balance between fixed and variable items) does not favor the interests of the Distributor or relevant persons in the interests of any client.

4.2 Conflicts of interests related to the executive officers and employees of the Distributor

To avoid of conflict of interest governs the acquisitions resulting in qualified influence, the employment, the conditions of personal business activities and the fulfillment of reporting obligations of executive officers and employees, defined in the applicable legal regulations, as well as bills constituting insider trading and market manipulation, or other manipulative deals.

4.3 Conflict of interest caused by separation inside the organization

Distributor shall regularly and continuously monitor any conflict of interest caused by separation inside the organization and assigns an elevated importance to its handling. The purpose of the Distributor is to prevent any person who has no duties related to investment or ancillary services from influencing any employee in any way who has such duties, as well as to facilitate the monitoring of any conflict of interest which might develop when employees who perform duties related to investment or ancillary services are doing tasks which are to be performed simultaneously or linked to each other.

In order to accomplish this, the following major segregations are applied:

- **Separation of administrators interacting with clients and back office administrators:**

  In order to guarantee the success of conflict of interest mechanism, the management of administrators interacting with clients and back office administrators shall be separated down to office manager and/or deputy office manager or department head level.

- **Control functions**

  The Distributor operates internal audit and compliance functions. The Distributor shall provide separate management for organizational units/employees performing control function as well as the necessary independence for the performance of their tasks (as defined by the applicable law). Every employee is obliged to report to his immediate senior (or by going one level higher) any incident and attempt related to curbing this independence.

5. Controlling mechanisms applied for managing conflicts of interest

Any conflict of interest shall be handled and monitored.

The following examples represent types of controlling which are suitable for managing conflict of interest.

- **Information exchange control** – preventing / controlling the exchange of information between relevant persons involved in a risk of conflicts of interest if such exchange of information could cause harm to the client or clients.
• Separate monitoring – the separate supervision of the relevant persons whose primary functions include carrying out activities on behalf of clients or providing services to clients whose interests may conflict, or who may otherwise conflict with various interests, including the interests of the Distributor.

• Removing remunerative relationships – the elimination of any direct link between remuneration of mainly relevant persons performing a given activity and the remuneration or revenue generated by other relevant persons who mainly carry out another activity if there is a conflict of interest between these activities.

• Checking unauthorized influences – measures to prevent or limit any unauthorized person's influence over the way in which a relevant person carries out investment or ancillary services or activities.

• Separating obligations – measures to prevent or control the involvement of a relevant person at a time or in succession in various investment or ancillary services or activities where such participation may hinder the proper management of conflicts of interest.

6. Procedure for managing conflicts of interest

The following monitoring actions shall be applied by the Distributor, which are suitable for managing conflicts of interest.

6.1 Detection

Detection of any case/possible case of conflict of interest presented hereinabove shall be the responsibility of the Distributor’s employees. If the employee cannot decide whether the certain case qualifies as conflict of interest, he shall contact the State Treasury Office manager.

6.2 Reporting

The case shall be reported to the office manager in writing (even via e-mail). The office manager shall be responsible for the detection, assessment and registration of any conflict of interest.

6.3 Assessment

The office manager shall examine each report and

- decide whether it is truly a case of conflict of interest;
- decide how the case should be adequately addressed;
- assess the significance of the conflict of interest (if considered as serious, it shall be reported to the county director immediately);
- decide whether it is necessary to inform the client on the conflict of interest.

6.4 Resolution

The office manager shall discuss his proposed solution with the manager of the field affected, and following the approval of the consulted manager the office manager hands over the task to the manager of the field competent for execution. When elaborating the proposed solution, the top priority is to find a solution suitable to avoid the conflict of interest or to protect the client from any related damage.

The Distributor shall monitor whether the level of independence between parties with conflicting interests is sufficient enough. It shall take alternative/additional measures if needed.
Distributor shall keep on monitoring and correcting the environment of internal control, and/or take into account the legal requirement as well as the market practices.

In order to facilitate effective and expeditious compliance, organizational units and employees operating the conflict of interest mechanisms have to review and evaluate the selected control and monitoring tools with a frequency appropriate to the respective functions, but at least once every year. Corrective measures have to be taken if needed.

7. Records

According to Article 26 of the Investment Services Act, the Distributor liable to keep a record of the kinds of investment or ancillary service or investment activity carried out by or on behalf of the firm in which a conflict of interest entailing a material risk of damage to the interests of one or more clients has arisen or, in the case of an ongoing service or activity, may arise.

All employees of the Distributor shall report any situation detected which result in conflict of interest to the State Treasury Office manager in writing without delay. The registration of cases of conflict of interest shall be the responsibility of the office manager. The case records shall contain all circumstances related to the conflict of interest, the name of the reporting employee, the date of reporting, the solution and the person in charge of the solution.

The Distributor keeps central records and records attached to the client’s master data, of the declarations and documents prepared in relation to conflicts of interest and informs the Distributor’s President about them in a summary table once every six months.

The documents must be stored and filed separately from other documents and they must be protected against any damage, deliberate vandalism or destruction. Documents related to conflicts of interest and the relevant records cannot be subject to disposal.

8. Control mechanism

Conflict of interest is controlled primarily based on “self-assessment”, according to the declarations on conflicts of interest issued by the persons/employees specified by law.

The organizational units providing investment services and ancillary services shall request information from the competent central expertise, in a documented manner, if the particular deal/transaction requires it, prior to the execution of the transactions in order to ensure compliance with the law.

All employees shall proceed with increased care and diligence, as specified in the applicable legal regulations and internal regulations, if they come across any conflict of interest. If any employee comes across any unmanaged conflict of interest and/or any subsequential suspected abuse or the possibility thereof, they must report it in writing to the office manager.

The Distributor undertakes that, insofar as the organizational or administrative rules for preventing the adverse effects of conflicts of interest on the interests of the clients are not sufficient to ensure it in a sufficiently reliable manner to prevent the risk of harming the interests of the client, inform the client of the general nature and / or resources of the conflict of interest; of the measures taken to reduce the risks in question, even before the relevant business is carried out for the client.

The Distributor orders all relevant employees to issue a written declaration, at least once every year, on the various causes of conflicts of interest that violate the conflict of interest regulations.
Conflicts of interest are prevented and managed with the processes and mechanisms specified in the Regulations, the efficiency and effectiveness of which is ensured by the Distributor by separating organizational units, IT databases and rights.

9. Review

The Distributor reviews the revision of the Conflicts of Interest policy at least annually and, where appropriate, also reviews it. The approval of the review of the Conflict of Interest policy falls within the competence of the Distributor’s President.

Hungarian State Treasury
DECLARATION
- on behalf of the employee of the Treasury -

I, the undersigned
Name ..............................................................................................................
Birth name ...........................................................................................................
Place and date of birth ......................................................................................
Address ..............................................................................................................
ID number .........................................................................................................

hereby declare that I am aware of the rules pertaining to conflicts of interest specified in Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities (hereinafter referred to as: Investment Services Act) and in Act CXX of 2001 on the Capital Market (hereinafter referred to as: Capital Market Act) and have accepted the provisions of the Public Service Terms and Conditions of the Hungarian State Treasury (hereinafter referred to as: Distributor).

Underline or complete the appropriate answer:

- the terms and conditions of the legal regulations do not apply to me, I comply with them.
- the terms and conditions of the legal regulations apply to me. I hereby provide details of my relations, interests and management positions specified in the Acts referred to above as follows.

a) I have qualified influence in
b) I own shares of
c) I am in a close relationship with
d) I am executive officer of
e) I am an employee of
f) I am the auditor of
the following company (companies)¹:

Please indicate your reference to points a) to f) before the company name.
Company name........................................................................................................
Registered office ...................................................................................................
Company registration number ............................................................................

g) pursuant to Section 201(2) of the Capital Market Act, I am an insider person,
h) I fall in the category of other stakeholder of the Distributor.
(please circle the appropriate answer)

Of my close relatives defined in the Civil Code, the following are employed by the Distributor

¹That (those) company (companies) must be indicated which is (are) a client (clients) or potential client(s) of the Distributor.
Name /Identification data /Relative status
1………………………………..............
2………………………………..............

Being aware of my liability under the Criminal Code, I hereby declare that the data in this declaration are true. I shall report any change in that respect without delay.

By signing this declaration I expressly consent to the management by the Distributor of my personal data specified herein and the data of my close relatives in compliance with the rules pertaining to confidential management and the provisions of its Public Service Terms and Conditions.

Date: ………………………………..

……………………………….

Signature of the person making the declaration
Instructions for filling the Declaration of Conflict of Interest

**Controlling influence:** according to Act C of 2000 on Accounting (hereinafter referred to as: Accounting Act) and its definition of parent undertaking, “controlling influence” is a relationship between a individual and a company, which entails the following:

(a) the influencing person may decide on the appropriation of profits, the redistribution of profits or losses to another undertaking or, the undertaking’s strategy, business or sales policies;

(b) the relationship permits the coordination of the management of the undertaking with that of another undertaking for the purpose of a common objective, regardless of whether the agreement is recorded in the bylaws (Articles of Association) of the undertaking or in other written contract;

(c) the joint management is effected through the partial (but providing a decision-making majority) or uniform composition of the board of directors, the supervisory board or the management;

(d) the influencing person exercises substantial influence over the operation of another undertaking without any capital involvement.

According to Section 3(2)(1) of the Accounting Act, a parent company means the following:

an undertaking that has the capacity to exercise controlling influence over another undertaking (hereinafter referred to as "subsidiary company"), either directly or through its subsidiary company, because it meets at least one of the following conditions:

(a) based on its ownership percentage in the share capital, it solely controls the majority (in excess of 50 percent) of the votes of the owners (shareholders), or

(b) it solely controls the majority of votes based on agreement with the other owners (shareholders), or

(c) in its capacity as an owner (shareholder) of the company, it is entitled to elect or dismiss the majority of executive employees or members of the supervisory board, or

(d) based on a contract concluded with the owners (shareholders), or a provision of the deed of foundation, it exercises decisive direction and control, irrespective of its percentage in the share capital, voting ratio and the right to elect and dismiss executive employees.

According to Section 3(2)(2) of the Accounting Act, a subsidiary company means the following:

business association over which the parent company defined under Item 1 has the capacity to exercise controlling influence.

**Shareholder relationship:** a relationship between a person and an undertaking, which is not considered to be a controlling influence and it enables the person to own, directly or indirectly, at least twenty percent of the voting or the ownership rights. When calculating the percentage of voting rights, the provisions of the Accounting Act shall be taken into account, regardless of whether the person falls under the scope of the Accounting Act or not.

**Close relationship:** a relationship that can be classified as controlling influence or a shareholder relationship, with the following additions: a) if a company is related to another company by way of a controlling influence, which constitutes a controlling influence over a third person, such third person shall also be regarded as closely related to the person that is on
the highest level; and b) relationships between companies that are under the controlling influence of the same third-party company shall also be regarded as close relationships. (Section 4(2)(63) of the Investment Services Act)

**Executive employee:**
a) executive officer, managing director and supervisory board member,  
b) in the case of branches, the person appointed by the foreign-registered company to lead the branch, and his deputy; and  
c) any person so designated in the charter document or in any internal policy on operations. (Section 4(2)(71) of the Investment Services Act)

**Insider person**
a) the executive officers and supervisory board members of the issuer;  
b) any legal person, including their directors, executive officers and supervisory board members, in which the issuer holds a share or voting rights, directly or indirectly, of twenty-five percent or more;  
c) any legal person, including their directors, executive officers and supervisory board members, that holds, directly or indirectly, a share or voting rights of ten percent or more in an issuer;  
a) any organization, including its director, executive officer or supervisory board member, that has, in any way or form, been engaged in the placement of securities or the arrangement of a takeover bid as specified under Chapter VII, as well as any employee of the issuer or an organization participating in the issuing and marketing operations, who has had access to insider information during his employment, for a period of one year after being placed on the market;  
b) any natural or legal person holding a share, directly or indirectly, of ten percent or more in the subscribed (base) capital of an issuer;  
f) any credit institution, including its executive officers, supervisory board members and directors, with which the issuer holds an account;  
g) any person obtaining inside information as part of his job or when discharging his usual duties in an official capacity, or in any other way relating to work performed under contract of employment or otherwise;  
h) any person who obtained inside information through criminal activities;  
i) any person living in the same household with the natural persons referred to in points a)-h), or his close relative;  
j) any legal person, including any person acting on their behalf, in which an insider person referred to in points a)-i) has a qualifying interest. (Section 201(2) of Act CXX of 2001 on the Capital Market (hereinafter referred to as: Capital Market Act)

**Other relevant person:** a person whose relationship with the employee of the Distributor or an entity (if any) who concluded an outsourcing agreement with the Distributor and an employee of that entity (if the employee is involved in the provision of investment services) is such that it enables the conclusion of any transaction in the success of which either one of them has a material interest. (Section 108(2) of the Investment Services Act) An example of such a relationship is being a close relative.

**Close relative:** spouses, next of kin, adopted children, stepchildren, foster children, adoptive parents, stepparents, foster parents, and siblings. (Section 8:1(1)(1) of the Civil Code)