

## **The investment services of the Hungarian State Treasury**

### **CONFLICT OF INTEREST 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 Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter referred to as: ISA) 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.

#### **3. Interpretative Provisions**

**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:

The main purpose is to facilitate the flow of information between employees in a way which prevents any damage caused to the client by potential conflicts of interest.

- *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.

**Effective from: 8th January 2024**

**Hungarian State Treasury**