

RULES PERTAINING TO THE OPERATION OF BRANCH OFFICES AND THE SUPERVISION OF OPERATIONS PERFORMED THROUGH BRANCH OFFICES AND CROSS-BORDER SERVICES IN HUNGARY, AND THEIR NOTIFICATION AND DATA REPORTING OBLIGATION

I. GENERAL RULES PERTAINING TO THE OPERATION OF BRANCH OFFICES

Section 2 (b) of Act CXXXII of 1997 on the Hungarian Branch Offices and Commercial Representative Offices of Companies Registered Abroad (BOA) defines the term of “branch office” as an unincorporated organisational unit of a foreign enterprise. It is entitled to do business independently and is registered in the domestic company registry as the branch office of a foreign enterprise, and as a specific company form.

Pursuant to Section 13 of the BOA, unless otherwise provided by law, branch offices qualify as foreign exchange residents. Pursuant to the principle of national treatment, the rules pertaining to domestic enterprises shall also apply to the operation, business activities and market conduct of branch offices. Owing to its foreign exchange resident status, a branch office is treated as a domestic entity when entering into a foreign trade contract, i.e. its business activities are subject to the same legal and administrative conditions as that of other businesses established in Hungary. For instance a guarantee issued by a credit institution operating in the form of a branch office shall be considered equal to a guarantee issued by a domestic credit institution and thus it does not require any additional guarantee.

A branch office may have premises (sites) in multiple cities (settlements).

As the first step in the registration procedure of a branch office, the competent foreign supervisory authority reports the establishment of the branch office. After confirming the foundation of the new entity, the MNB registers the branch office, independently of its entry into the company registry. One of the key obligations related to the date of registration is the payment of the supervisory fee, which - pursuant to Article 168 (1) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank (MNB Act) - is mandatory for all institutions that possess a license or are listed in the MNB’s registry as of the first day of the calendar year.

The branch office is entitled to launch operations once it receives confirmation of registration, and simultaneously to that, it shall file for registration in the company registry pursuant to Section 24 (2) of the Branch Office Act. The branch office is required to report the commencement of operations to the MNB. From that point on, the new company shall be subject to data provision obligation.

The deletion of a branch office from the registry must begin with the filing of a corresponding report by the competent foreign supervisory authority. In addition, evidence must be supplied to the MNB that the relevant requirements are met. Then the MNB sends a confirmation note to the parent institution and the foreign supervisory authority and deletes the branch office from the registry. Simultaneously to that, the obligation of the branch office to pay supervisory fees and provide data is terminated.

Pursuant to Section 23 (1) of the Branch Office Act, the branch office shall be considered terminated upon deletion from the company registry.

II. OCCUPATIONAL PENSION PROVIDERS

For the purposes of Act CXVII of 2007 on occupational retirement pension and institutions for occupational retirement provision (OP Act), cross-border activities mean operating a pension scheme where the relationship between the sponsoring employer and the members and pensioners

concerned is governed by the social and labour law relevant to the field of occupational pension schemes of a Member State other than the home Member State.

Pursuant to the provisions of Section 83 of the OP Act, the MNB is in charge of supervising occupational pension provider institutions and employers registered in another EEA state as of the date specified in Section 83 (3) of the OP Act.

If the MNB receives notification from the competent authorities of the home state of an occupational pension provider institution registered in another EEA state to the effect that such occupational pension provider institution wishes to accept payment from an employer in the context of cross-border services, it shall inform the notifying authority within six weeks of receipt of the notification about the Hungarian social and labour law rules governing the operation of occupational pension provider institution registered in another EEA state, the notification obligation vis-a-vis members and the requirements pertaining to the investment of the occupational pension provider institution's assets.

An occupational pension provider institution registered in another EEA state may commence its cross-border operations in Hungary once it has received notification from the competent authorities of its home state, but no later than upon lapse of the above specified time limit.

2.1. Applicable legislation on social insurance and labour law

2.1.1. Membership in an occupational pension provider institution

Within the meaning of the OP Act, members are persons other than pensioners and future members, acquiring eligibility for the occupational pension defined in the relevant statutes, membership agreement, employment agreement or collective agreement defining the conditions for occupational pension provision on the basis of their employment or employment under the laws of another EEA state, or persons expected to conditionally acquire eligibility.

Pursuant to Section 26 (1)-(2) of the OP Act, a person in the employment of the founder or sponsoring employer in accordance with point 23 of Section 2¹, whose contract of employment includes the employer's commitment to pay contributions may be accepted as member. The employer may undertake contribution in keeping with the provisions on equal treatment defined in legislation on employment. Membership starts with the conclusion or the amendment of an employment agreement with the employer. The employer shall notify the institution for occupational retirement provision immediately after the conclusion or the amendment of the employment agreement. The employer shall notify the employee that its personal data has been forwarded to the occupational pension provider institution.

Any employer may join the occupational pension provider institution in the manner defined in its statutes (**joining employer**). The joining employer shall enter into an agreement with the institution

¹ Employment according to Section 2. of the OP Act, employment according to the Labour Act, and any other legal relationship for work that is subject to the provisions of the Labour Act, too (according to a separate act of law); in addition, for the purposes of the law, the term of employment covers the government service relation and the public service relation according to the act on public service officials, the political service relation, the commissioner relation and governmental service relation according to Governmental Administration Act, the public servant status according to Act XXXIII of 1992 on the Legal Status of Public Servants, the prosecutors' service relation according to Act CLXII of 2011 on the Prosecution Service, the service relation according to Act CLXII of 2011 on the Status and Remuneration of Judges, the service relation according to Act LXVIII of 1997 on the Service Status of Judicial Employees, the professional service relation and law enforcement administrative service relation according to the act on the service relation of the professional staff of law enforcement organisations, the defence employee relation according to Act CXV of 2018 on the Legal Status of Defence Employees, the service relation according to the act on the legal status of soldiers; the tax and customs authority service relation according to the Act on the legal status of the National Tax and Customs Administration's staff; for the purposes of this act of law, clergymen are also considered as employed persons.

for occupational retirement provision, in which it undertakes to pay contribution for its employees.

Self-employers may also join the occupational pension provider institutions. A joining self-employer is in the same category as a joining employer.

For the purposes of the OP, self-employers are persons identified by Act CXXII of 2019 on the Eligibility for Social Security Benefits and the funding for these benefits (SSA), Section 4 (2) and (20), as follows:

Private entrepreneur:

1. any natural person listed in the register of private entrepreneurs as defined in the Act on private entrepreneurs and sole proprietorship, private persons who are authorised to engage in private practice providing veterinarian services and private persons who are authorised to engage in pharmaceutical services,
2. attorneys and European Community jurists (attorneys),
3. private patent attorneys,
4. public notaries performing their activities not on behalf of a notary's office,
5. independent court bailiffs performing their activities not on behalf of a court bailiffs' office.

• Business partnership shall mean:

1. any general partnership,
2. any limited partnership,
3. any private limited-liability company,
4. any joint company,
5. any professional association, including European economic interest groupings,
6. the business partnerships listed under Points 1-5 when functioning as pre-companies,
7. any patent agency company or patent attorneys' office,
8. any private driving school,
9. any association of private educators,
10. any law firm or notaries' office,
11. any court bailiffs' office,
12. any sole proprietorship.

Pursuant to Section 29 (1) of the OP Act, membership shall cease:

- a) in the event of the death of the member;
- b) upon termination of the member's employment during the term of conditional eligibility;
- c) upon transfer of the member to another occupational pension provider institution;
- d) if the provision of occupational pension to the member has ceased.

A settlement obligation with the members or their beneficiaries arises in the event of the termination of membership.

Section 31 of the OP Act specifies the procedure applicable in the event of the member's death. In accordance with the operational rules and the OP Act, the member may designate a natural person as his beneficiary by a unilateral declaration in an authentic instrument or a private document with full probative force in the case of his death (death beneficiary). The declaration shall include the beneficiary's name, place and date of birth, mother's name and address.

The designation of the beneficiary is subject to be confirmed by the institution for occupational retirement provision and shall be effective retroactively as of the date when filed. In addition to the member's data the declaration shall include the name, data of the designated beneficiary, the rate of his/her eligibility, and the date of the designation of the beneficiary.

In case a member has designated more than one beneficiary without further instructions, the beneficiaries designated shall have equal shares of the account. The member may appoint a new beneficiary at any time.

The designation of the beneficiary shall be annulled, if

- a) the member cancels the designation of the beneficiary,
- b) the member designates another beneficiary,
- c) the beneficiary predeceases the member,
- d) the beneficiary is found guilty by a court of law for the murder of the member. In this case, the beneficiary may not benefit from the member's account.

When more beneficiaries are appointed and one of them dies, the share of the deceased payee shall be divided among the surviving beneficiaries in accordance with their respective percentage of eligibility. If the member did not designate a beneficiary, or if the designation was terminated under Section 31 (5), a), c) and d) of the OP Act, the member's lawful heir shall be considered the beneficiary based on his share of the inheritance. If the member does not have a natural person who could become his lawful heir, the amount on the member's account shall be passed to the institution for occupational retirement provision, and the institution for occupational retirement provision will credit it on the accounts of the members in employment relation with the member's employer in proportion to the their balances outstanding when the amount is credited.

The beneficiary becomes the sole owner of the member's account upon the death of the member. The occupational pension provider institution shall accommodate the beneficiary's decision made according to Section 31 (9) of the OP Act within three working days upon proving his/her eligibility with checking the document held by the institution on the designation of the beneficiary. - -

The beneficiary shall declare in writing whether

- a) he/she uses the amount due to him/her as occupational pension plan benefit, or
- b) if the operational rules allows it, leaves the amount with the institution for occupational retirement provision, either continuing the aggregation or not, or
- c) transfers it to another institution for occupational retirement provision, or
- d) withdraws the amount on the member's account in a lump sum payment.

The beneficiary may make the declaration specified in Section 31 (9) of the OP Act any time. If the beneficiary does not make a declaration within thirty days upon the documented receipt of the written request of the institution for occupational retirement provision, the institution for occupational retirement provision acts as if the beneficiary elected the procedure referred to in Section 31 (9) b) of the OP Act.

If the beneficiary chooses the procedure specified in Section 31 (9) b), he/she shall be treated similarly to members from the date of the declaration.

Without prejudice to Section 31 (1) - (11) of the OP Act, the pension scheme may include provisions under which the member cannot appoint a beneficiary in the case of his death. In such a case, the amount on the member's account shall pass to the institution for occupational retirement provision, and the institution for occupational retirement provision shall credit it on the accounts of the members in the pension scheme of the deceased person in proportion to the their balances outstanding when the amount is credited. If the employer links the payment of the contribution to the employee's additional voluntary contribution, the pension scheme cannot contain a provision stating that no beneficiary may be designated.

Pursuant to Section 32 (1) of the OP Act, if the defined benefit pension scheme provides for the eligibility of a relative, his eligibility becomes accessible upon the death of the member.

Pursuant to Section 31 (1)-(6), the member may appoint a beneficiary to receive relative's benefit. If the member does not designate a beneficiary, or the designation becomes void, the close relative of the member shall be eligible to receive the benefit. If the pension scheme does not provide for the eligibility of a relative, the eligibility for the benefit becomes void. If the employer links the payment of the contribution to the employee's additional voluntary contribution, the eligibility for a relative cannot be excluded.

Pursuant to the OP Act, 'conditional eligibility period' means the minimum period spent in labour relations after which the ownership of the credited contributions paid by the employer, the related yields and the eligibility generated during this period are transferred to the members.

The conditional eligibility period may not exceed three years. If the employer links the payment of the contribution to the employee's additional voluntary contribution, and the employment terminates before the conditional eligibility period expires, the institution for occupational retirement provision shall repay the additional voluntary contributions paid by the employee on the member's request in a lump-sum payment together with the yields on the additional voluntary contributions to the member's account in the case of defined contribution pension schemes, or together with the yield realized on the mathematical provisions in proportion to the additional amount paid by the employee in the case of defined benefit pension schemes.

If membership terminates during the conditional eligibility period because of the member's death, the amount specified in Section 27 (2) of the OP Act shall be paid to the beneficiary appointed by the member, or in the lack of a validly appointed beneficiary, to the heir.

If membership terminates during the conditional eligibility period, the institution for occupational retirement provision

- a) in the case of defined contribution pension schemes, shall credit the contribution paid by the employer together with the related yield on the accounts of the members belonging to the former member's pension scheme in proportion to their balances outstanding at the time of crediting,
- b) in the case of defined benefit pension schemes, shall distribute the capital value of the former member's recorded eligibility to the members who have not received pension plan benefits yet in the form of an increase of their eligibility at an equal rate at the time of crediting, and transferred to the mathematical provisions

2.1.2. Principles of additional voluntary contributions paid by the member

The member may undertake to pay additional voluntary contributions in addition to the amount paid by the employer. Such additional voluntary contribution may be a lump sum payment or made on a regular basis. The member may suspend such payments at any time. The employer may link the payment of the contribution to the employee's additional voluntary contributions. This condition and the legal consequences of the failure to pay such additional contributions shall be ordered in the employment or the collective agreement. The member shall not be liable to pay additional voluntary contributions for periods when the employer does not pay the contribution referred to in the employment or the collective agreement.

The employer shall pay the contribution and the member shall supplement this as described in the previous paragraph until the employment is terminated. Neither the member's creditors, nor external third parties' creditors may lay claims to receivables recorded on the member's account. If the employer fails to meet its obligation undertaken in the employment contract or the collective agreement, the occupational pension provider institution and the member may enforce the claim in

court.

2.1.3. Collective agreement

Pursuant to Section 276 (1) of Act I of 2012 on the Labour Code (Labour Code), a collective agreement may be concluded:

- a) by employers, and by employers interest groups by authorisation of their members, and
- b) by trade unions or trade union associations.

The scope of collective agreements may cover:

- a) rights and obligations arising out of or in connection with employment relationships;
- b) conduct of the parties relating to the conclusion, implementation and termination of the collective agreement, and concerning the exercise of their rights and obligations.

A collective agreement of limited effect may derogate from one with a broader scope — unless otherwise provided therein — insofar as it contains more favourable regulations for the employees. Derogations for the benefit of employees shall be adjudged by a comparative assessment of related regulations. Collective agreements may only be concluded in writing.

The scope of the collective agreement applies to the employer that

- a) concluded the collective agreement, or
- b) is a member of the employers' organisation having concluded the collective agreement.

The effect of the provisions of the collective agreement governing the means of communication of the parties shall apply to the undersigning parties of the collective agreement. The effect of the provisions of the collective agreement governing employment relationships shall apply to all the workers employed by the employer. In the case of employment established by multiple employers - in the lack of other agreements - the employee is subject to the scope of the collective agreement concluded by the employer according to Section 195 (2) of the Labour Code. The collective agreement shall enter into effect when published.

2.1.4. Requirement of equal treatment

Pursuant to the second stipulation of Section 26 (1) of the OP Act, the employer may undertake contribution in keeping with the provisions on equal treatment defined in legislation on employment.

Pursuant to Section 12 of the Labour Code, in connection with employment relationships, in particular remuneration, the principle of equal treatment must be strictly observed. Remedy of the violation of this requirement shall not result in any violation of or impingement upon the rights of any other employee. 'Wage' shall mean any remuneration provided to the employee directly or indirectly in cash or in kind, as well as social benefits, based on his/her employment.

The equal value of work for the purposes of the principle of equal treatment shall be determined based on the nature of work, its quality and quantity, working conditions, vocational training, physical and intellectual efforts, experience and responsibilities.

Pursuant to Section 21 f) of Act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities, it is considered a violation of the principle of equal treatment in particular if the employer inflicts direct or indirect negative discrimination upon an employee, especially when establishing and providing allowances due on the basis of the employment relationship or other relationship related to work, particularly in establishing and providing wages/salaries defined in Section 12 (2) of the Labour Code.

2.1.5. Time of payment

Pursuant to Section 34 (3) of the OP Act, a member shall be eligible for occupational pension plan benefits when the retirement age defined in Section 2, item 25 of the OP Act is reached, a medical certificate in case of his/her disability the rate of which exceeds the degree specified in the pension scheme is submitted, and when the waiting period passes (if there is such provision in the pension scheme), or in case of pension plan benefits available to relatives, the relative shall be eligible when the member dies.

Within the meaning of the OP Act, waiting period means a time of membership defined by the pension scheme starting with the date when the person becomes a member, after which the member may have access to the occupational pension plan benefit the earliest, upon the fulfilment of other conditions.

2.1.6. Pension provision

Pursuant to Section 34 (1) and (2) of the OP Act, the occupational pension provider institution shall provide occupational pension as defined in its statutes.

The pension plan benefits may be

- a) a lump-sum pension plan benefit,
- b) a benefit for a defined period,
- c) an annuity, or
- d) a combination of the above.

2.1.7. Retirement age

Pursuant to the OP Act, 'retirement age':

- a) means the age specified by Act LXXXI of 1997 on Social Security Retirement Provision (**SSRPA**) as a precondition for old-age pension, and
- b) shall be considered on an equal footing with the time from which the member receives retirement pension, benefits provided before the legal age limit, service emoluments, dance artists' annuities and provisional miners' allowances, retirement aid (retirement pension) or invalidity benefits provided under the government decree on benefits provided by the Hungarian Creative Art Foundation, or increased retirement pension or occupational disability benefits,
- c) means the old-age retirement age relevant to the member under the social and labour laws of the state where the employer is headquartered in the case of cross-border activities;

In case of old-age pension assessed for any period after 31 December 2008:

Pursuant to Section 18 (1) of the SSRPA, the retirement age granting eligibility for old-age pension benefits under the social security system is:

- a) 62 years if born before 1 January 1952,
- b) 62 years plus 183 days if born in 1952,
- c) 63 years if born in 1953,
- d) 63 years plus 183 days if born in 1954,
- e) 64 years if born in 1955,
- f) 64 years plus 183 days if born in 1956,
- g) 65 years if born in or after 1957.

Full old-age pension benefits shall be granted to persons

- a) who reached the retirement age based on their year of birth as defined in Section 18 (1) of the SSRPA (old-age retirement age), and
- b) have at least twenty years of service time.

Pursuant to Section 18 (2a) of the SSRPA, women with at least forty years of eligibility time are entitled to full old-age pension, independently of their age.

Pursuant to Section 18 (2a) of the SSRPA, time spent in gainful occupation or an equivalent legal status, as well as the period when prenatal allowance and childcare allowance, maternity benefits, child-care allowance, child-care assisting benefit, child-care benefits, child-raising allowance, child home care allowance or care allowance for a severely disabled blood or adopted child, or any equivalent status, completed prior to 1 January 1998 shall qualify as time granting the right to benefits.

Pursuant to Section 18 (2a) of the SSRPA, full old-age pension cannot be established if the service time spent in gainful occupation or an equivalent legal status falls short of 32 years, or 30 years in case of women benefiting from a child home care allowance or a care allowance for a severely disabled blood or adopted child, or any equivalent status, completed prior to 1 January 1998.

The time granting the right to benefits specified in Section 18 (2a) of the SSRPA — if the beneficiary is raising five children in its household — shall be reduced by one year and by one additional year after each additional child, but by no more than a total of seven years. Child raised within the household refers to a blood or adopted child living with the beneficiary as his or her main dwelling and only regularly leaves their care during daytime at most, or a child satisfying the criteria defined in section 12 (2) of Act LXXXIV of 1998 on Family Support.

Partial retirement pension shall be granted to persons

- a) who are over the retirement age, and
- b) have at least fifteen years of service time.

Pursuant to Section 83/C. (1) of the SSRPA, the disbursement of the old-age pension shall be suspended - from the start date of the old-age pension, and in the case of a legal status established as old-age pensioner, from the first day of the month following the establishment of the legal status to the last day of the month of the termination of the status -, if the pensioner has public employee relation, law enforcement administrative service relation, defence employee relation, government service relation, state service relation, state leader service relation, public servant or public agent service relation, judge service relation, judicial employee service relation, prosecutor's service relation, a professional service relation according to the act on the professional staff of law enforcement organisations or a contractual or professional service relation with the Hungarian Army. The pension providing administrative institution decides on the suspension of the disbursement of the old-age pension and on the repayment of the old-age pension received without eligibility on the basis of the notice by the pensioner according to Section 97 (5) of the SSRPA, and based on the data provided by the national tax authority, in its official competence. The affected party shall have the status of pensioner during the duration of suspension of old-age pension. Old-age pension may be dispersed once again at the pensioner's request once the beneficiary has provided proof of termination of its legal relationship.

2.1.8. Labour-related legal disputes

Pursuant to Section 285 of the Labour Code, workers and employers may pursue their claims arising from the employment relationship or out of the Labour Code, and trade unions and work councils may pursue their claims arising out of the Labour Code or a collective agreement or a works agreement by

judicial process.

Without prejudice to the above point, the employer may enforce its claim against the employee and related to the employment in an amount not higher than three times the mandatory lowest wage as specified by Section 153 (1) a) of the Labour Code. Payment requests shall be stated in writing.

A claim may be filed against a decision adopted by the employer within its right of discretion if the employer has violated the provisions pertaining to such decisions.

The term of limitation for labour-law claims shall be three years. The term of limitation for

- a) claims for compensation for damages caused by a criminal offence, or
 - b) paying restitution in relation to the violation of rights relating to personality
- shall be five years, or longer, as consistent with the statute of limitations for such criminal liability.

The lapse of a claim shall be recognized ex officio. Furthermore, periods of limitation shall be governed by the relevant civil law provisions, where the term of limitation for the claims of employees may not be reduced by the parties.

An action shall be brought within thirty days of notification of the employer's act, in connection with:

- a) any amendment of the employment contract implemented by unilateral decision;
- b) wrongful termination of the employment relationship;
- c) the sanctions applied on account of a breach of obligation by the employee;
- d) a payment notice; and
- e) the enforcement of the claim related to Section 81 (2) of the Labour Code.

Claims pertaining to the employee's

- a) termination of the legal relationship pursuant to Section 40 of the Labour Code, or
 - b) termination of the legal relationship without notice pursuant to Section 78 of the Labour Code
- may be forced within the term of limitation.

In the case of challenging the termination of the employment relationship by mutual consent, an action may be brought within thirty days from the date when the challenge was declared declined. The challenge shall be declined if the other party fails to respond within fifteen days from the date of delivery, or refuses to accept it.

The deadline for bringing an action shall be considered met if the statement of claim is dispatched on or before the last day of the deadline. A party that misses the deadline shall have the option to file an application for continuation. Claims may not be pursued after six months. Court action shall have no suspensory effect.

If conciliation is stipulated in the collective agreement or in the parties' agreement, this shall have no effect on the time limits specified in Section 287 of the Labour Code. The employer, the works council or the trade union may bring an action within five days in the event of any violation of the provisions on information or consultation. The court shall hear such cases within fifteen days in civil non-litigious proceedings. The decision of the court may be appealed within five days from the date of delivery of the decision. The court of the second instance shall deliver its decision within fifteen days. Special provisions for the enforcement of claims on any grounds defined in the collective agreement may be laid down in the collective agreement.

2.2. Information provided to member

Pursuant to Section 28 (1) of the OP Act, institutions for occupational retirement provision shall provide regularly updated information to prospective members, members, pensioners and beneficiaries.

Pursuant to Section 28 (2) of the OP Act, the information shall be written in a clear manner, using clear, succinct and comprehensible language, and consistency shall be ensured in the vocabulary and content. The information shall not be misleading. In the case of cross-border activity, the information shall be made available in the official languages of all Member States where the institution for occupational retirement provision operates.

2.3. Rules of investment

Pursuant to Section 45 of the OP Act, the institution for occupational retirement provision may manage its assets on its own or through an organization authorized as specified in Section 5 (3) of the OP Act. In this context, the occupational pension provider institution shall have independent discretion over its investments constituting asset backing and shall take steps to manage and reinvest the assets managed by it in accordance with the principles and rules defined in this Act and in its investment policy.

The occupational pension provider institution may charge a handling fee for its management of the pension scheme, deducted from the contribution paid by the employer.

The occupational pension provider institution may outsource all or part of its asset management operations to an asset manager organisation. The occupational pension provider institution's board of directors shall regularly monitor the asset manager's activities in the event of outsourced asset management.

The occupational pension provider institution may engage in asset management independently without commissioning an asset manager if

- a) it satisfies the adequate personal and material conditions defined in Sections 11 and 17: of the OP Act,
- b) this is allowed under the statutes or bylaws of the occupational pension provider institution,
- c) it has asset management and asset valuation regulations in place.

Keeping an invested investment assets in petty cash, on a current account or an investment account does not qualify as own asset management activity by the occupational pension provider institution.

Investment policy

The investment policy of an occupational pension provider institution shall be elaborated by its board of directors, in accordance with its statutes. The investment policy shall comprise the following substantive elements:

- a) the objective and core principles for investing the assets of the occupational pension provider institution,
- b) the range of assets that may be acquired by the occupational pension provider institution,
- c) the asset allocation (minimum and maximum ratios) and targeted yield indicators (reference indices) of the occupational pension provider institution's investment strategy defined based on its risk-assumption capacity, risk management and existing and expected obligations,
- d) the method of measuring investment risk and assessing investment performance,
- e) the nature and term of the pension schemes managed by the occupational pension provider institution,
- f) the description of the applied risk management processes and

- g) the description of the way how the occupational pension provider institution considers the possible long-term effects of investments on the environment, the society and the governance.

The board of directors shall decide on the maintenance or modification of its investment policy at least at an annual frequency, or within 30 days in the wake of legislative changes or other factors substantially impacting the investment policy. The board of directors shall immediately notify the members and annuitants of the occupational pension provider institution of its decision.

The occupational pension provider institution shall submit a portfolio report on the pension schemes managed by it to the MNB in the form and manner stipulated by the MNB on a quarterly basis, including an analysis of the harmony with the principles of the investment policy.

The occupational pension provider institution may undertake a guarantee to protect capital and regarding the yield of the pension scheme (capital and yield guarantee). The yield guarantee incorporates a guarantee to preserve the capital invested. Capital and yield guarantees undertaken by the occupational pension provider institution shall be backed by sufficient collateral. Collateral shall be regarded as adequate if

- a) it is provided by a credit institution, insurer or reinsurer,
- b) it is a commitment made out in writing,
- c) the insurer may seek out the collateral issuer directly to receive payment and may enforce its claim within a reasonable deadline,
- d) the amount of collateral is clearly corroborated in the currency of the pension scheme with adequate calculations,
- e) the collateral issuer shall not terminate its obligation with respect to the pension scheme to which the capital or yield a guarantee collateral applies,
- f) the capital and yield guarantee covers the whole amount, and the collateral is valid and enforceable with any governing legal authority.

The occupational pension provider may make a promise to protect capital and regarding the yield of the pension scheme (capital and yield protection). The promised yield includes the guarantee to preserve the capital. The occupational pension provider shall corroborate its capital and yield promise with an investment policy on financial assets ensuring its yield and provide detailed information to members and annuitants.

The occupational pension provider institution's invested assets shall be defined based on their market value. The investments of the occupational pension provider institution shall be in harmony with its short-term (under one year) and long-term (over one year) liabilities, maintaining the occupational pension provider institution's continuous solvency.

The occupational pension provider institution's investment activities shall endeavour to achieve the highest amount of pension provision, factoring in the level of risk assumed by the occupational pension provider institution and its liability structure.

The occupational pension provider institution's investment activities shall be performed in the best long-term interests of members and pensioners, with due care, responsibility and qualification.

In the context of investment activities, due care shall be taken to ensure sufficient diversification of the portfolio, correctly applied risk management, factors arising from the maturity structure of the liabilities and meeting liquidity needs. When using indirect investment instruments, the investment costs indirectly incurred for members or the employer relative to the costs incurred by direct

investments shall be duly justified.

The MNB shall rate the adequacy of the credit rating procedures applied in the context of risk management taking into account the size, nature, volume and complexity of the occupational pension provider institution's operations, including the role in investment policy of the credit ratings issued by the credit rating agencies defined in Article 3 (1) *b*) of Regulation No 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, and if necessary, encourages the mitigation of the effects of such references so that the exclusive and automatic consideration of such loan assessments could be reduced

The investments of the occupational pension provider institution shall also be divided within the different asset groups by issuer.

The rules of investment shall be adhered to by each occupational pension provider institution.

The proportion of securities issued by a single issuer — with the exception of government securities — shall not exceed 10% of total assets within the occupational pension provider institution's investments.

Deposits placed at a credit institution within a credit institution group — with the exception of payment accounts — and the aggregate value of securities issued by an entity forming part of this same group shall not exceed 20% of the occupational pension provider institution's total assets.

The proportion of securities issued by a joined employer within the occupational pension provider institution's portfolio shall not exceed 5%, while the aggregate proportion of securities issued by enterprises controlled by the joined employer shall not exceed 10%. When investing in securities issued by a joined employer, special care shall be taken and the prudential requirements pertaining to diversification complied with.

The occupational pension provider institution may conclude derivative transactions for purposes of hedging, arbitrage and efficient portfolio creation. In case of non-standardised futures and option transactions, extra care shall be taken when elaborating settlement conditions and determining counterparty risk to protect the customer from losses arising from the non-standardised nature of the transaction. - Transactions for hedging purposes are those — pursuant to Section 3 (8), item 10 of Act C of 2000 on Accounting — concluded on the basis of assets already forming part of the occupational pension provider institution's portfolio and geared towards mitigating the associated risk. In case of hedging, an exposure necessitating hedging is necessary. A transaction shall be regarded as being geared towards arbitrage if it takes advantage of an exchange rate or interest spread extant in time or space in a way that does not create an open position and the transaction does not increase the portfolio's risk level.

If fluctuations in market rates or the adding of securities lending transaction collateral to the portfolio lead to the breach of the above specified rules, the occupational pension provider institution or the asset manager shall reduce the proportions to within the limits defined in Section. 48 (1)-(3) of the OP Act within 30 calendar days.

The occupational pension provider institution shall hold sufficient liquid assets investments to the extent necessary for meeting its pension provision obligations and in accordance with its regulations. Financial instruments not traded on a recognised securities market or other regulated market, in a multilateral trading system or organized trading system shall be kept at a carefully defined low level, taking into consideration exposure.

The occupational pension provider institution may utilize the real estates owned by it only by letting out, re-selling or development.

The occupational pension provider institution may let property to a third party for the purposes of business activities, however the occupational pension provider institution shall not engage in any business endeavours in relation thereto incurring a risk over and above investment risk.

The letting, selling and development of property (property management) forms part of asset management activities. The outsourcing of investment operations does not affect decisions on ownership rights and the management of property, which remain solely in the hands of the occupational pension provider institution.

2.4. Description of pension scheme

Pursuant to Section 33 (5)-(6) of the OP Act, the maximum technical interest rate of pension schemes provided through the branch offices of occupational pension provider institutions established in another state or in the context of cross-border services is governed by the regulations of the home state. Occupational pension provider institutions engaging in cross-border operations in another EEA state shall also take into account the demographic conditions prevailing in the home state of the employer.

2.5. Supervision of occupational pension providers registered in another EEA state and providing cross-border services

Pursuant to Section 84 of the OP Act, the MNB may request ad hoc information from an occupational pension provider institution or employer registered in another EEA state on its contract terms and conditions and the related documents to verify that the contracts comply with the laws of Hungarian.

An occupational pension provider institution registered in another EEA state shall comply with the notification obligations defined in Section 28 of the OP Act with regard to its members whose membership is based on their employment in Hungary.

If the MNB perceives any infringing operation, it shall immediately notify the competent authorities of the home state. The MNB shall cooperate with the competent authorities of the home state in an effort to end the infringing operation of the occupational pension provider institution registered in another EEA state.

The MNB is entitled or, at the request of the competent supervisory authority of the home state, required to audit the operations of the occupational pension provider institution registered in another EEA state. In this context, the MNB may conduct on-site audits of the activities performed in Hungary in the context of cross-border services of the occupational pension provider institution registered in another EEA state and request the disclosure of data relevant to these activities from such occupational pension provider institution, in keeping with the legislation governing data protection.

The MNB shall, at the request of the competent supervisory authority of the home state, take action to forfeit the assets of the occupational pension provider institution registered in another EEA state held by its custodian established in Hungary.

If the operation inconsistent with Hungarian social security and labour laws continues despite or due to the absence of measures taken by the competent authorities of the home state, the MNB may apply the measures - even together - specified in section 84 (6) a)-f) of the OP Act for the purpose of fulfilling the obligations of the occupational pension provider institution registered in another EEA state and for protecting member interests and ensuring compliance with the OP Act, following prior notification of the competent authorities of the home state.

If the infringing occupational pension provider institution registered in another EEA state has an enterprise registered in Hungary with the registered office or establishment located in Hungary, the enforcement carried out at the MNB's initiated may be applied to this enterprise or its rights representing pecuniary value, in accordance with the relevant effective laws.