

AUTHORISATION OF THE OPERATION OF CREDIT INSTITUTIONS

Pursuant to the provisions in subparagraph aa) of paragraph a) and paragraph b) of Section 9 (1) of Act CCXXII of 2015 on the general rules of trust services and electronic transactions, Sections 17 (1) and 19 (1) of Government Decree 451/2016. (XII. 19.) on the detailed rules of electronic services, and Section 3 (1) of MNB Decree 36/2017. (XII. 27.) on the rules of electronic communication in official matters in progress before the Magyar Nemzeti Bank ("Decree"), on grounds of Section 58 (2) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank ("MNB Act"), the **legal representative** of an **economic operator or an applicant (client)** obliged to apply electronic communication must submit his application, notification or other petition by using the prescribed form available in the information system ensuring the electronic transactions of the MNB ("ERA System") and introduced for the procedure related to the petition is question, in the manner and with content specified therein, simultaneously uploading the attachments specified by the law and other documents required by the MNB.

In the licensing procedures, the applications and notifications must be submitted by using the prescribed electronic form available in the *E-administration / Licensing* service on the ERA interface on the MNB's website, attaching the certified electronic copies of the appendices. The resolutions, requests for clarification, notices and other communications of the MNB are delivered to the applicant or their legal representatives by sending them to the delivery storage space.

The website of the MNB includes information materials on electronic transactions and the submission of appendices to be attached in licensing procedures (electronic documents):

<https://www.mnb.hu/letoltes/tajekoztatas-az-e-ugyintezesrol-az-mnb-elotti-engedelyezesi-eljarasokban-1.pdf>

Further information related to certain aspects of the licensing procedures is available under the following menu item:

<https://www.mnb.hu/en/supervision/licensing-and-institution-oversight/licensing-procedures/general-information>

I. GENERAL RULES

Upon receipt of the authorization of establishment, credit institutions may engage in activities related to the setting up of banking operations. (*Section 18 (6) of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act)*)

The resolution granting authorization for the establishment of a credit institution becomes void if the credit institution fails to submit the application for activity license to the MNB within 6 (six) months of receipt of the resolution. No justification may be submitted if the time limit is missed. (*Section 31 of the Banking Act*)

A credit institution that is to engage in financial services and financial auxiliary services may take up operations in possession of the MNB's activity license. (*paragraph f) of Section 14 (1) and Section 20 (1) of the Banking Act*) (*in the prescribed electronic form*)

II. LICENSING PROCEDURE

2.1 The application for an operating license must be accompanied by the following documents

- Original proof of having the initial capital paid up in full, (*paragraph a) of Section 20 (2) of the Banking Act*)
- If all or part of the assets specified in paragraph a) is spent, evidence or a statement to declare that such expenditure was made in connection with foundation or the commencement of operations, (*paragraph b) of Section 20 (2) of the Banking Act*) (*in the prescribed electronic form*)
- Information for the identification of each shareholder of the credit institution with minimum 5 (five) per cent share or voting right, or if there is no shareholder with a qualifying holding in the credit institution, for the identification of the twenty largest shareholders or members with voting rights, (*paragraph c) of Section 20 (2) of the Banking Act*)
- A mid-term business plan for the first three years, excluding credit institutions permanently affiliated to a central body (*term 1 of paragraph d) of Section 20 (2) of the Banking Act*)
 - Evidence regarding compliance with personnel and infrastructure requirements prescribed for operations, (*term 2 of paragraph d) of Section 20 (2) of the Banking Act*). *As the personnel requirements, it must be ensured that the applicant has on staff senior executives as required by the*

Banking Act and other persons filling the positions specified in the Banking Act (internal auditor, compliance officer, data protection officer, auditor)

- Documents to verify the compliance of the senior executives (managing directors, board and supervisory board members) (A detailed list of the documents is included in the guide titled Election/appointment of the senior executives of credit institutions). A further condition for granting an operating licence is that the credit institution has on staff senior executives meeting the requirements of the Banking Act, that is, least two managing directors, a board of directors comprising at least three-members (of whom at least two are considered resident under foreign exchange regulations, including the person is entitled to freedom of movement and residence, and who have permanent residence in Hungary for at least one year) and a supervisory board comprising at least three members. The authorisation of the election/appointment of the senior executives is included in the decision authorising the activities of the credit institution. (*Section 137, 139, 148, 149 (1), 155 and 156 of the Banking Act*)
- One or more standard service agreements, containing inter alia the standard contract terms and conditions, pertaining to the activities planned to be performed, (*paragraph e*) of *Section 20 (2) of the Banking Act*)
- A statement in which to specify the date proposed for the commencement of operations, (*paragraph f*) of *Section 20 (2) of the Banking Act*)
- A copy of the letter of intent of admission sent to the Országos Betétbiztosítási Alap (National Deposit Insurance Fund) (hereinafter referred to as "OBA"), with the exception of credit institutions incorporated as a branch under Section 209 (3) of the Banking Act, which are not required under the decision of the MNB to join the OBA, (*paragraph g*) of *Section 20 (2) of the Banking Act*)
- A statement on having the necessary facilities in place to comply with data disclosure obligations as prescribed by the relevant legislation, as well as the results of live tests of the computer programs used for such disclosure of data (statement to be made in the prescribed electronic form), (*paragraph h*) of *Section 20 (2) of the Banking Act*)
- An internal remuneration policy, which is proportional having regard to financial services and financial auxiliary services carried out by it and the nature, scale, complexity and risks of the applied business model. (*paragraph f*) of *Section 107 (1) and Sections 117-121 of the Banking Act*)
- As regards risk assumption, procedures and policies on the following subjects:
 - for addressing risks that the recognized credit risk mitigation techniques the credit institution uses prove less effective than expected (*paragraph a*) of *Section 108 (5) of the Banking Act*)
 - for addressing concentration risk arising from exposures to clients, groups of connected clients (including central counterparties), and counterparties, clients in the same economic sector, geographic region or from the same activity, and from the application of credit risk mitigation techniques, (*paragraph b*) of *Section 108 (5) of the Banking Act*)
 - for the measurement and management of all material sources and effects of market risks, and for taking measures against the risk of a shortage of liquidity where the short position falls due before the long position, (*paragraph c*) of *Section 108 (5) of the Banking Act*)
 - for the evaluation, measurement and management of the risk arising from potential changes in interest rates as they affect the credit institution's non-trading activities, (*paragraph d*) of *Section 108 (5) of the Banking Act*)
 - for the evaluation and management of the exposure to operational risk, including model risk, including contingency and business continuity plans to ensure the credit institution's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, (*paragraph e*) of *Section 108 (5) of the Banking Act*)
 - for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, tailored to business lines, currencies and legal entities of the group, including adequate allocation mechanisms of liquidity costs, benefits and risks. (*paragraph f*) of *Section 108 (5) of the Banking Act*)
- In addition to the accounting policies above, an internal policy for the identification, measurement, management and monitoring of funding positions, covering the current and projected material cash-flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities, as well as estimated cash flows due to the possible impacts of reputational risk. (*paragraph c*) of *Section 108 (6) of the Banking Act*)
- The credit institution's management body in its managerial function must adopt an adequate strategy and communicate risk tolerance to all relevant business lines. The strategies and policies must be proportionate to the size of the credit institution, the complexity and scope of its operations and risk tolerance set by the management body in its managerial function, and reflect the credit institution's systemic importance in each

EEA Member State, in which it carries out financial service activities. *(points a) and b) of Section 108 (6) of the Banking Act)*

- Credit institutions must have in place effective written procedures and policies:
 - for the evaluation and management of risks arising from securitization transactions in relation to which the credit institutions are acting as the investor, originator or sponsor, including reputational risks (such as arise in relation to complex structures or products), so as to ensure in particular that the economic substance of the transaction is fully reflected in the risk assessment and management decisions. *(paragraph g) of Section 108 (5) of the Banking Act)*
 - for the identification, management and monitoring of the risk of excessive leverage, in particular in order to ensure that credit institutions address the risk of excessive leverage in a precautionary manner by taking due account of potential increases in the risk of excessive leverage caused by reductions of the credit institution's own funds through expected or realized losses, hence to be able to withstand a range of different stress events with respect to the risk of excessive leverage *(paragraph h) of Section 108 (5) of the Banking Act)*.
 - for the process for approving, amending, renewing, re-financing and monitoring credit and loan operations *(paragraph i) of Section 108 (5) of the Banking Act)*.
- The draft of the accounting policy and detailed accounting system *(paragraph i) of Section 20 (2) of the Banking Act)*

Accounting policy and its mandatory annexes:

- chart of accounts and system of accounts,
- policy on the evaluation of assets and liabilities,
- customer and counterpart rating policy,
- policy on coverage assessment,
- policy on asset rating,
- policy on impairment and provisioning according to the accounting requirements,
- cash and value management policy,
- internal rules on calculating net cost (Cost calculation policy); policy on the inventory and stocktaking of assets and liabilities,
- policy on the order of the handling, record-keeping and accounting, as well as the audit of documents of strict accountability,
- investment policy,
- policy of account management and deposit collection,
- - policy on the accounting and record-keeping of derivative transactions and the determination and separated management of hedging transactions,
- in the case of an institution considered as a parent company, policy pertaining to the preparation of the consolidated annual accounts.

(points a) and b) of Section 67 (1) of the Banking Act; Sections 14 (4), (5) and (8) of Act C of 2000 on Accounting; Sections 3 and Schedule 7 of Government Decree 250/2000. (XII.24.) on the special provisions of the annual reporting and bookkeeping obligations of credit institutions and financial enterprises; and MNB Decree 40/2016. (X. 11.) on the prudential requirements for collateral management)

(In all cases, the policies should be drawn up in accordance with the activities to be carried out.)

- A statement concerning direct connection to any payment system between credit institutions (statement to be made in the prescribed electronic form) and an auditor's certificate concerning the information technology system providing this connection, or a statement concerning the acceptance of an indirect connection. *(statement to be made in the prescribed electronic form) (paragraph j) of Section 20 (2) of the Banking Act)*
- A statement on joining the central credit information system defined by the Act on the Central Credit Information System. *(paragraph k) of Section 20 (2) of the Banking Act, Act CXXII of 2011 on the Central Credit Information System) (statement to be made in the prescribed electronic form)*
- The rules of procedure, approved by the board of directors of the credit institution, to be applied in the event of an emergency situation seriously jeopardizing the liquidity or solvency of the credit institution and, if the credit institution is not covered by supervision on a consolidated basis, a recovery plan drawn up according to Section 114 of the Banking Act. *(paragraph l) of Section 20 (2) of the Banking Act)*
- The organizational structure, system of management, decision-making and control procedures as well as the organizational and operational regulations, if such are not detailed in the charter document. *(paragraph m) of Section 20 (2) of the Banking Act)*

Internal policy on the organizational structure, powers and responsibilities of the internal control unit, the professional requirements for the internal controller, and the rules of procedure. Banks and specialized credit institutions must set up and operate an independent internal control unit supervised directly by the management body in its supervisory function. (*Section 154 (1) of the Banking Act*). The internal control system must be developed consistent with the characteristics, magnitude, complexity, and risks of the services provided by the financial institution. (*Section 154 (4) of the Banking Act*)

A cooperative credit institution must employ at least one internal controller. (*Section 17/K (5) of Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendment of certain acts on economic matters ("CCI Act")*)

Proof that the head of the internal control unit, or the person entrusted with control duties where the financial institution employs only one internal controller, has the required qualification, three years of professional practice and no criminal records. (*Section 154 (11) of the Banking Act*)

- Proof of unrestricted possession rights to the registered seat (title deed, lease/sublease contract, etc). (*paragraph d) of Section 67 (1) and Section 67 (2) of the Banking Act*)
- Internal policy pertaining to the keeping of the trading book. (*Article 104 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR)*)
- Policy on the prevention and combating of money laundering and terrorist financing. (*Act LIII of 2017 (AML)*)
A credit institution may commence operations only if in possession of a policy approved by the MNB. (*Section 65 (2) of the AML*).
- A bank security policy drawn up to ensure the infrastructural conditions and safety requirements necessary for the operations, and a presentation of the regulation system concerning the secure operation of the IT system.

The credit institution is to establish its regulatory system in relation to its information system used for the attendance of financial service, financial auxiliary service activities and other activities directly related thereto, and provide for proportionate protection of the IT system against risks. In the regulatory system, it should define the requirements imposed upon information technology and the rules on the assessment and management of security risks arising from the use thereof in the area of corporate governance, planning, development and procurement, as well as operation, monitoring and independent control.

Taking into account the security risks arising from the use of information technology, the institution should define the organisational and operational rules, the rules on responsibility, record-keeping and information and the control requirements and rules built into the process.

The institution should develop and continuously operate an IT control system monitoring the secure operation of its IT system. (*Sections 2 and 3 of Government Decree 42/2015. (III.12.)*)

- Financial services, other than financial auxiliary services, may be provided only if an IT system is in place, which ensures the integrity of system components, prevents unauthorized access to or undetected modification of the IT system. The IT system must be in compliance with overall information security and system integrity requirements. To that end, the credit institution must implement administrative, physical and logical measures to satisfy compliance with overall information security integrity requirements. Compliance with the IT system requirements should be verified by a certificate issued by an external expert (certification body). The certificate is valid for one year from issue. (*Section 67/A of the Banking Act, Section 5/A of Government Decree 42/2015. (III.12.)*)
- A financial institution, which is using cloud computing services in the framework of an outsourcing contract already at the time of starting operations, must take account of the requirements in Recommendation MNB No 4/2019. (IV. 01. of the Magyar Nemzeti Bank).
- The engagement agreement of the auditor certified to audit financial institutions and the statement of the auditor that he is not subject to any of the grounds for exclusion under the Banking Act. (*Sections 260 (1) and (2) of the Banking Act*)
- In the case of credit institutions set up as cooperative societies, a statement of admission submitted to the Integration Organization provided for in the CCI Act. (*paragraph n) of Section 20 (2) of the Banking Act*),
- A copy of the statement on joining the Resolution Fund. (*paragraph p) of Section 20 (2) of the Banking Act*)
- The credit institution's complaints handling policy. (*paragraph q) of Section 20 (2) of the Banking Act*)
- In the case of legal representation, the power of attorney (*Section 14 of Act CL of 2016 on general public administrative procedures*). If the applicant is established abroad, a statement concerning the applicant's agent for service of process; such agent must be an attorney or a law firm registered in Hungary, or the applicant's bank representative office in Hungary. (*paragraph e) of Section 18 (1) of the Banking Act*)

- The statement of the applicant credit institution that it has disclosed to the MNB all important facts, data and information required for the issue of the authorisation. (*Section 59 (2) of the MNB Act*) (*statement in the prescribed electronic form*)

2.2. Refusal of the application for activity licence

The MNB will refuse the application of the credit institution for an activity licence if:

- the applicant provides any misleading or false data during the licensing procedure,
- the financial institution proposed to be established by the applicant fails to meet the statutory provisions concerning initial capital, corporate form, company form, ownership and management bodies,
- the applicant is a non-resident and does not have an agent for service of process; or
- the person who has close links with the credit institution is established in a third country where there are legal impediments liable to prevent the effective exercise of supervision on a consolidated basis,
- there are reasonable grounds to suspect that, in connection with the activity of the applicant, money laundering or terrorist financing within the meaning of the relevant legislation is being or has been committed or attempted, or that the proposed activity could increase the risk thereof. (*points a)-e) of Section 30 (1) and paragraph a) of Section 30 (3) of the Banking Act*)
- the applicant fails to meet the prescribed personnel and infrastructure requirements,
- the applicant is deemed unable to comply with the statutory provision regarding prudent operation by virtue of its business plan, other documents enclosed with the application for authorization, or to any document, data or information furnished to the Supervision. (*points b-c) of Section 30 (3) of the Banking Act*)

2.3. Operating licence of the branch of third-country credit institutions

In addition to the above, the application for an activity licence of the branch of a third-country credit institution must be accompanied by the following documents if the branch does not join the National Deposit Insurance Fund based on the licence of the MNB under Section 209 (3) of the Banking Act:

- the commitment of the branch for providing clients with information in Hungarian relating to the forms of insured deposits,
- the third-country credit institution's commitment pertaining to the indemnification of deposit holders in Hungary,
- the conditions and method of indemnification, the manner in which procedures are carried out, and agreements ensuring payments of indemnification. (*subpoints oa), ob) and oc) of paragraph o) of Section 20 (2) of the Banking Act*)

III. PAYMENT OF THE ADMINISTRATIVE SERVICE FEE

Pursuant to Section 1 of MNB Decree 32/2023. (VII. 19.) on the administrative service fees of the Magyar Nemzeti Bank applied in certain licensing and registration procedures in the context of the supervision of the financial intermediary system and with respect to trustee enterprises, the conduct of the licensing procedure is subject to the payment,

- in the case of bank, specialised credit institutions and the branch in Hungary of credit institutions established in a country that is not a state party to the Agreement on the European Economic Area (third country), of an administrative service fee of 2,300,000 HUF,
- in the case of a cooperative credit institution, of an administrative service fee of 1,600,000 HUF.

Further information about the administrative service fee is available in the following link:

<http://www.mnb.hu/letoltes/tajekoztatas-a-magyar-nemzeti-bank-altal-egy-es-engedelyezesi-es-nyilvantartasba-veteli-eljarasokban-alkalmazott-igazgatasi-szolgaltatasi-dijrol.pdf>

Should, after carefully reading this guide, any further question – related to the respective, individual case, not possible to answer in the form of consultation over the phone or in writing – arise, the MNB provides the applicant with the possibility of personal consultation. For the possibility of personal consultation, contact the secretariat of the Money and Capital Markets Licensing Department (telephone number: (Telephone: +361-489-9731; Email: ptef@mnb.hu)).

If the questions are solely of IT nature, you may also contact the Information Technology Supervision Department directly for the purpose of personal consultation (Telephone: +361-489-9780; Email: iff@mbn.hu).

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