



## **NOTICE ON THE TECHNICAL CONDITIONS OF THE MNB'S GOVERNMENT SECURITIES PURCHASE PROGRAMME**

### **I. Description of the Programme, eligibility criteria**

Pursuant to the Monetary Council's decision of 7 April 2020, the MNB launches a government securities purchase programme (Programme). Under the government securities purchase programme, the MNB announces a competitive Auction for the purchase of government securities as of 4 May 2020 until recalled, and purchases forint denominated fixed-rate government securities in the form of prompt securities sale and purchase transactions in the secondary market. In the course of the Auction for the purchase of government securities, the MNB purchases securities in the secondary market (Auction) by ranking the competing bids.

The following Counterparties may participate in the Programme:

- domestic credit institutions (subject to reserve requirements) with direct VIBER or BKR membership and KELER securities account, also acting as Primary Dealers of government securities under an agency contract with ÁKK Zrt. (Government Debt Management Agency), or owning a Primary Dealer,
- publicly available open-ended securities funds, which has already been registered by the MNB on the 1<sup>st</sup> of April 2020, and are managed by the 10 largest, MNB-supervised investment fund managers with registered seats in Hungary<sup>1</sup>, those that do not qualify as Money Market Counterparties and do not qualify as collective investment undertakings involved in the trading of transferable securities (among investment funds subject to Act XVI of 2014 on Collective Investment Trusts and Their Managers and on the Amendment of Financial Regulations).
- The MNB publishes the list of the 10 largest asset managers on its website without indicating any ranking.

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<sup>1</sup> The MNB defines the group of the currently "10 largest investment fund managers with registered seats in Hungary" on the basis of the latest data taken from relevant data supplies (of table code 50C pursuant to the MNB Decree on the reporting obligations for the central bank information system to be fulfilled primarily in the relation to carry out the supervisory tasks of the Magyar Nemzeti Bank and code F07 pursuant to the MNB Decree on the reporting obligations for the central bank information system to be fulfilled primarily in the relation to carry out the basic tasks of the Magyar Nemzeti Bank), based on the net asset value of publicly available open-ended securities funds managed by the investment fund manager and based on the value of the assets managed by voluntary pension funds. Based on the latest data available for the first time on 21 April 2020, following the first occasion, the MNB shall revise the list of fund managers in every six month, based on the latest data available on the last working day before the calendar half-year. The MNB publishes the list of these affected investment fund managers first until 30 April 2020, then until the 3<sup>rd</sup> working day following the calendar half-year.

1 The MNB announces the Auction on Tuesdays, on a regular weekly basis, but may derogate from this in exceptional cases. The MNB announces the Auction with or without quantity limit, but in the latter case reserves the right to apply quantity limits in the acceptance of the bids in the individual Auctions. In the announcement of the Auction, the MNB indicates the identifiers of government securities (short names of government securities) for which the Counterparties may submit bids (government securities offered at Auction). The MNB makes decisions on the acceptance of bids by ranking the bids for each security series according to yields. Bids are ranked in descending order from the highest yield bid, by cumulating according to the quantities targeted. The MNB takes a decision on the acceptance of bids submitted by considering bids and the cumulative amount. The remaining amount, defined on the basis of the total accepted quantity, is allotted in nominal value between the competing bids at the lowest accepted yields, until the total accepted amount is reached, in accordance with the rules of card allocation. Depending on market conditions and the submitted bids, the MNB is entitled to derogate from the announced quantity downwards and upwards, or to consider the Auction as unsuccessful.

2 The bids shall be submitted with yields rounded to two decimal places and the quantity intended to be sold shall be submitted at nominal value. One credit institution Counterparty may submit maximum 3 bids per security in one Auction. In the case of Funds, the fund manager representing them will submit the offer. If the fund manager submits a bid on behalf of multiple managed Funds, it submits an aggregate bid. In one Auction, one fund manager may submit an aggregate bid on behalf of maximum 3 managed Funds per security, specifying one yield and one aggregate quantity. Following the announcement of the result, the MNB sends a documented confirmation to the bidders about the acceptance of their bids. Following that, but at the latest on the day of the Auction, the fund manager informs the MNB on the breakdown of the accepted combined bid, indicating the names of the Funds and the quantity.

3 The prices of government securities, expressed as a percentage of their face value, are determined with an accuracy of four decimals, based on the resolution of ÁKK Zrt. of 1 March 2018 on financial calculations concerning government securities.

4 In addition to Auctions for the purchase of government securities, the MNB purchases government securities from the Counterparty in both the stock market and the secondary market outside the stock exchange.

- Considering conditions of individual transactions, the MNB may purchase government securities over the counter in direct form of sales and purchases.
- In regulated stock exchange transactions, the MNB purchases government securities in the debt securities section of the BSE.
- The MNB carries out these purchases by adhering to the principles of market neutrality and equal treatment.

5 In the case of government securities purchased by the MNB in and outside Auctions, as a result of the purchases, the volume of individual government securities series owned by the MNB may not exceed 33 per cent of the nominal value of the outstanding security series.

6 When the results are announced after the Auction, the MNB publishes the total bid amounts, the accepted amounts for each type of securities, as well as the average yield weighted by the quantities. On the first working day of each week, the MNB publishes a the quantity of owned government securities and purchased securities outside Auctions in the previous week for each security series.

7 The Counterparty is responsible for ensuring that the securities are free from lawsuit, claim, encumbrance and defect. Transactions are settled in accordance with the relevant rules and procedures of KELER Zrt. During the settlement of the transactions, the MNB applies the Delivery Versus Payment (DVP) mechanism. If, on the day of financial settlement, the delivery of securities fails due to a default of the Counterparty, the MNB may exclude temporarily or permanently the Counterparty that has not or not adequately fulfilled its liabilities to the MNB from further Auctions and purchases and may pass all costs incurred on to the Counterparty.

8 The MNB is not responsible for any claims originating from the legal relationship between the Fund and the fund manager, in particular no claim shall be raised against the MNB on the basis of the fact that the fund manager - meeting its statutory obligations and order allocation policy – submits a bid on behalf of the managed Funds, and in the case of a combined bid, allocates the sale of government securities provided by the MNB and calculated in aggregate to the managed Funds accordingly.

## II. Detailed parameters and conditions for the auctions for the purchase of government securities

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| <b>Description of transaction</b>                  | Auction for the purchase of government securities   |
| <b>Time and place of announcement / invitation</b> | At the latest on the day of the Auction, on the Reuters NBHT1, NBHT2 and Bloomberg NBHT10 pages   |
| <b>Contents of announcement / invitation</b>       | Time of the Auction, the short name of government securities to be offered at the Auction, and in the case of limited quantities, the nominal value of the announced quantity   |
| <b>Eligible counterparties</b>                     | <ul style="list-style-type: none"> <li>▪ domestic credit institutions (subject to reserve requirements) with direct VIBER or BKR membership and KELER securities account, also acting as domestic Primary Dealers of ÁKK Zrt. or owning a domestic Primary Dealers of ÁKK Zrt.,</li> <li>▪ publicly available open-ended securities funds, which has already been registered by the MNB on the 1st of April 2020, and are managed by the 10 largest, MNB-supervised investment fund managers with registered seats in Hungary, those that do not qualify as Money Market Counterparties and do not qualify as collective investment undertakings involved in the trading of transferable securities (among investment funds subject to Act</li> </ul> |

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|  | XVI of 2014 on Collective Investment Trusts and Their Managers and on the Amendment of Financial Regulations)   |
| <b>Business hours / time of acceptance of bids</b> | Until the time specified in the invitation  |
| <b>Content and formal requirements for bids</b>    | <p>Bids can be submitted through the Reuters Dealing or in fax, or in the lack if that, it shall be an offer recorded in an electronic document, in Excel table, with contents and format that satisfy other conditions in the bid, sent to the <a href="mailto:forexdesk@mnbb.hu">forexdesk@mnbb.hu</a> e-mail address, and it shall bear the qualified electronic signatures of the representatives of the sending party or their high-security electronic signatures certified by a qualified certification, or an AVDH (Identification Based Document Authentication) certification, and it shall arrive at the MNB through an encrypted (TLS) channel.</p> <p>Bids shall be submitted with yields rounded to two decimal places and the quantity expressed at nominal value.</p> |
| <b>Number of bids accepted from any bidder</b>     | In the case of credit institution Counterparties, 3 bids per security. In the case of Funds, the fund manager may submit an aggregate bid per security on behalf of maximum three managed Funds   |
| <b>Bid limit</b>                                   | At least HUF 100 million per bid at nominal value, as a whole-number multiple of HUF 100 million.   |
| <b>Adjustments</b>                                 | No  |
| <b>Bid increment</b>                               | HUF 10 million  |
| <b>Method of evaluating bids</b>                   | Auction offers are evaluated by ranking bids for yields. Bids are ranked in descending order from the highest yield bid, by cumulating according to the quantities offered. The MNB takes a decision on the acceptance of bids submitted by considering the bids and their cumulative amount.   |
| <b>Evaluating identical bids</b>                   | If the yields, submitted with several bids, are identical, the remaining amount, defined on the basis of the total accepted quantity, is allotted in increments of HUF 10 million between the competing bids for the lowest accepted yields, until the total accepted amount is reached, in accordance with the rules of card allocation.   |
| <b>Date and place of announcements</b>             | On Reuters NBHT1, NBHT2 and Bloomberg NBH10 pages, at the time indicated in the invitation  |
| <b>Contents of announcements</b>                   | For each government security, the total bid amount, the accepted amount and the average yield weighted by quantities.   |
| <b>Financial settlement / date of settlement</b>   | T+2   |

The issues not regulated in this Notice shall be governed by the “Terms and conditions of the operations of the central bank in forint and foreign currency markets”.

Budapest, 4 May 2020

**MAGYAR NEMZETI BANK**