

## **Client information**

on the risks and costs of settlement through cash  
accounts held with KELER

**17 December 2020**

Dear Client,

KELER Központi Értéktár Zrt. (hereinafter: 'KELER'), in line with the provisions of Regulation (EU) No. 909/2014 of the European Parliament and of the Council on improving securities settlement in the European Union (Central Securities Depositories Regulation, hereinafter: 'CSDR')<sup>1</sup>, wishes to inform you about the risks and costs identified by KELER in relation to the settlement of the participant's cash account kept with KELER.

### **Opportunities for financial settlement of securities in the Hungarian capital market**

There are basically three options available to participants in a securities settlement system for the financial settlement of securities transactions:

- a) In the case of transactions in the currency of the country of settlement, through a cash account held with the issuing central bank.
- b) Through a cash account managed by a central securities depository authorised to hold cash accounts.
- c) Through a cash account with a credit institution specified by the central securities depository.

In the case of transactions to be settled in HUF in Hungary, among the options listed above, for option 'a' the Magyar Nemzeti Bank (Central Bank of Hungary) and for option 'b' KELER may be the cash account manager of the system participant. Option 'c' is not available on the domestic capital market during securities clearing.

In accordance with Section 3.1<sup>2</sup> of the Business Terms and Conditions of MNB, the MNB shall only maintain bank accounts for persons with direct system membership in HUF payment systems. Based on the above, participants of the securities settlement system who do not wish to have direct system membership in the above HUF payment systems may only execute financial transactions settled at KELER in a cash account held with KELER.

Customers who have securities accounts and who use KELER's securities custody services related to foreign securities must also use KELER's cash account management services to settle their orders.

### **RISKS RELATED TO CASH ACCOUNTS MANAGED BY KELER**

#### **Counterparty risk**

KELER is the majority owned financial institution of the Magyar Nemzeti Bank and indirectly owned by the Hungarian State. As the organisation supervising financial organisations, the MNB carries out the audit of KELER's activities.

KELER, as an organisation with direct system membership in HUF payment systems, maintains cash accounts with the Magyar Nemzeti Bank.

KELER maintains a cash account with Societe Generale, Paris in order to ensure the settlement of the securities issued in the settlement system operated by KELER.

KELER executes financial transactions related to custody of foreign securities through cash accounts managed by SIX/SIS AG, a Swiss-based depository authorised also as a credit institution.

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<sup>1</sup> Article 40

#### **Cash settlement**

(1) For transactions denominated in the currency of the country where the settlement takes place, a CSD shall settle the cash payments of its securities settlement system through accounts opened with a central bank of issue of the relevant currency where practical and available.

(2) Where it is not practical and available to settle in central bank accounts as provided in paragraph (1), a CSD may offer to settle the cash payments for all or part of its securities settlement systems through accounts opened with a credit institution or through its own accounts. If the central securities depository offers to settle in accounts opened with a credit institution or through its own accounts, it shall do so in accordance with the provisions of Title IV.

(3) A CSD shall ensure that any information provided to market actors about the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts is clear, fair and not misleading. The central securities depository shall make available sufficient information to clients or potential clients to allow them to identify and evaluate the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts and shall provide such information on request.

<sup>2</sup> MNB Business Terms and Conditions, Section 3.1 "a) HUF bank accounts for the purpose of providing settlement services for payment service providers, investment firms and non-resident organisations operating a payment system under foreign law having direct participation in HUF payment systems; and HUF bank accounts or (under an agreement for a technical settlement account) a HUF technical settlement account for the same purpose for market infrastructures as per their decision."

Based on the strict requirements defined in the technical standard of CSDR<sup>3</sup>, KELER continuously evaluates and rates the service providers and intermediaries it uses.

### **Legal risk**

In the case of liquidation proceedings initiated against KELER pursuant to Section 345 (3) and (4) of the Capital Market Act, KELER's assets of liquidation shall not include any security deposit with KELER in order to secure the transaction. If this client property cannot be returned to clients in whole or in part, then, contrary to the sequence of satisfaction specified in Section 57 of the Bankruptcy Act, after the liquidation costs have been satisfied KELER's assets must first satisfy the claims of these clients.

Under the current regulations, deposit insurance does not cover the budgetary authority, local government, insurance, reinsurance, voluntary mutual insurance funds, private pension fund, investment funds and investment fund managers, the National Pension Insurance Fund and their management organisations, and deposits of the pension insurance administration, the segregated public fund, the financial institution and the payment institution, the MNB, the investment firm, the stock exchange member, the commodity service provider, the mandatory or voluntary deposit insurance, institutional protection, investor protection fund, and deposits of foreign counterparts of the foregoing.

### **Risk arising from activities performed by KELER**

During the authorisation procedure related to the CSDR, KELER has been authorised only for the following banking-type ancillary services directly related to its core services:

- the provision of deposit-type settlement account to participants of the securities settlement system and securities account owners and the acceptance of deposits from them,
- to provide KELER CCP only with a cash loan for repayment on the next business day at the latest, in order to ensure smooth settlement,
- Treasury services provided to participants in the settlement system in connection with a securities settlement
- cash deposit management.

### **Operational risk arising from KELER's account management service**

#### ***Limitation of funds held in cash accounts:***

Cash accounts held with KELER are restricted accounts, and only cash amounts related to securities settlement may be kept on them.

#### ***Provision over cash accounts:***

When settling or allocating the balance (positions) generated in cash accounts, the acceptance deadlines specified by KELER and the risks of correspondent banks employed by KELER shall be taken into account.

(KELER - Depository Announcement No. 10/2018 - KELER Foreign currency account management information (general rules, list of correspondent banks and account numbers), and

KELER - Depository Announcement No. 07/2019 - Deadlines for the receipt, settlement and cancellation of orders)

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<sup>3</sup> COMMISSION DELEGATED REGULATION (EU) No. 2017/392 (11 November 2016) supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories Article 85 Monitoring and management of additional risks resulting from the use of indirect links or intermediaries to operate CSD links

**Ensuring coverage:** The funds required for settlement shall be provided in advance in the cash account maintained by KELER.

**Management of cash account balances:** The balance of the cash account kept by KELER shall be managed independently of the cash account kept with the MNB, if any, i.e. the cash flows and balances executed on it shall be separately monitored and accounted for.

**General operational risk:**

KELER is a direct member of the domestic payment systems (VIBER, GIRO) and through its correspondent banks it ensures financial settlements in international payment systems. The interconnection of IT systems involves complex technological solutions that can fail despite regular tests. In the event of malfunctioning, the procedures specified in the business continuity plans of KELER and its affiliated institutions are applied, however, certain orders may be delayed or not fulfilled, which can, in extreme cases, disrupt the securities settlement process.

**Costs RELATED TO CASH ACCOUNTS MANAGED BY KELER**

KELER presents the costs related to cash account management and the financial leg of securities settlement in a transparent manner, in a separate regulation and with the provision of examples. The current KELER Fee Schedule is a public document available on the KELER website at <https://www.keler.hu/Dokumentumtár/Szabályzatok/Díjszabályzatok/>

The additional cost element related to the account management, which may arise depending on the market interest rate environment, may be included in the Interest Payment List of KELER Ltd., which describes in detail the interest conditions attached to the cash accounts. The document is public and available on the KELER website.

<https://www.keler.hu/Dokumentumtár/Kondíciós%20listák/KamatifzetesiKondiciosLista/>

KELER continuously monitors the client and partner risks and costs arising from its cash account management and updates its current client information immediately if any changes are made to these.

Budapest, 17 December 2020

Regards,  
KELER Ltd.