RULES OF PROCEDURE

FOR THE SECONDARY MARKET BUYBACK OF GOVERNMENT BONDS BEFORE MATURITY WITHIN THE FRAMEWORK OF OTC TRANSACTIONS

Date of entry into force: 1 January 2025

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Preambulum

In order to manage the financing of large amount government bond maturities, the Government Debt Management Agency Private Company Limited by Shares (hereinafter as: ÁKK) shall buy back government bonds issued publicly by the Hungarian State (hereinafter as: Issuer) via auction exclusively in Hungary with an original term-to-maturity of more than 365 (three hundred and sixty-five) days (hereinafter as: Government Bonds) and determined in advance by ÁKK in accordance with the provisions of these rules of procedure, within the framework of secondary market transactions, pursuant to Article 13(1)(f) of Act CXCIV of 2011 on the Economic Stability of Hungary. These rules of procedure (hereinafter as: Rules of Procedure) set out the terms and conditions of the buyback of Government Bonds before maturity.

1. General provisions

1.1. The secondary market buyback of Government Bonds (hereinafter as: Buyback) shall be carried out in accordance with these Rules of Procedure, as announced by ÁKK, within the framework of a buyback auction (hereinafter as: Buyback Auction). Offers may be submitted at the Buyback Auction(s) directly only by the dealers having entered into a Primary Dealer Contract with ÁKK on the placement and trading of Government Securities issued by the Hungarian State (hereinafter as: Primary Dealers). The owners/beneficiaries of the relevant Government Bonds may contact the Primary Dealers in connection with their intention to submit offers.

1.2. By submitting an offer for the Government Bond(s) within the framework of the Buyback Auction(s), the parties submitting such offers accept the rules of the Buyback Auction as binding on themselves.

1.3. ÁKK shall inform the Primary Dealers and the public on the 3rd (third) working day prior to the day of the Buyback Auction on the LSEG (previously: Refinitiv Eikon) HUBUYBACK page, the Bloomberg GDMA 1 page and on the website of ÁKK (www.akk.hu) about the identification data of the Government Bonds to be repurchased, the date of the Buyback Auction, the settlement date of the transactions concluded on the basis of the Buyback Auction and other conditions applicable to the given Buyback Auction.

1.4. The capitalized terms in these Rules of Procedure, unless expressly defined otherwise, shall have the meaning specified in the regulation of the Budapest Stock Exchange Public Company Limited by Shares (hereinafter as: BSE) on the „Trading Rules regarding the Auction Board in the MMTS1 Trading System" (currently the Resolution No. 174/2024 of the Budapest Stock Exchange Public Company Limited by Shares; the currently effective regulation hereinafter as: the „Rules of BSE Regarding Auction Trading).

1.5. Within the framework of the Buyback Auction(s), a sale and purchase contract – not qualifying as a stock exchange transaction – shall be concluded between the Primary Dealers or Government Bond owner(s) whose offer has been accepted and ÁKK acting on behalf of the Issuer, for the Government Bonds concerned.

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1.6. For issues not regulated under these Rules of Procedure the Rules of BSE Regarding Auction Trading – including any additional regulations referred to therein – and the relevant provisions of Hungarian laws shall prevail.

2. Rules for the submission of offers

2.1. Offers may be submitted on the so-called Buyback Auction Board (hereinafter as: Buyback Auction Board) operated by BSE within the framework of the MMTS1 trading system (hereinafter as: Trading System), in the format specified by the system, in compliance with the prescribed content requirements.

2.2. Offers may be submitted for a total face value of at least HUF 1,000,000, namely One million Hungarian forints (for 100 pieces of Government Bond of the relevant series with a face value of HUF 10,000), with yield or price indication. Offers may be submitted between 10.30 and 11.00 a.m. CET on the day of the Buyback Auction, only during the competitive bidding period.

2.3. No later than 10.00 a.m. CET on the day of the Buyback Auction, the Primary Dealer must ensure that the Buyback Auction Board it uses is operational. The Primary Dealer must report the failure of the Buyback Auction Board as set out in the General Terms of Service – Book Four Regulations on Technical Connections of BSE to ÁKK in writing to the treasury@akk.hu e-mail address by 10.15 a.m. CET, if the failure cannot be remedied by 10.15 a.m. CET, and at the same time must notify BSE in writing of the failure by sending an e-mail to the trading@bse.hu e-mail address. Upon receipt of the written notification of the failure by ÁKK, the Primary Dealer concerned may submit its offer by 10.40 a.m. CET on the day of the Buyback Auction in the format set out in Annex 1 of these Rules of Procedure, duly signed, primarily by e-mail, scanned (e-mail address: treasury@akk.hu) or, if this is not possible, by fax (fax number: +36 1 488-9425) or personally delivered to the official premises of ÁKK (1013 Budapest, Krisztina tér 2., floor 3, room 307). The offers received in this way will be recorded by ÁKK in the register.

Those offers shall be considered as received by ÁKK, which have been imprinted with the delivering register used and authenticated by ÁKK. The imprint of the delivering register shall contain the time as follows:

a) in case of sending a message by e-mail, the time of receipt of the e-mail;
b) in case of sending by fax, the time indicated in the confirmation of the fax message;
c) in case of personal delivery, when the Primary Dealer has handed over its offer to the administrator of ÁKK.

If the Primary Dealer is unable to connect to the Trading System on the workstation installed to it, the offer(s) submitted by the Primary Dealer as set out above shall be entered into the Trading System by ÁKK on behalf of the Primary Dealer, to which the Primary Dealer is bound during the period of time open for bidding pursuant to Section 2.2. of these Rules of Procedure. The original of the offer submitted by e-mail or fax must be sent by the Primary Dealer to ÁKK within 3 (three) working days after submission.

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If the central auction system operated by BSE is affected by the technical failure, and the Buyback Auction Board of the Trading System is not available to any Primary Dealer until 10.30 a.m. CET on the day of the Buyback Auction, the Primary Dealer has the opportunity to submit its offer(s) until 11.00 a.m. CET on the day of the Buyback Auction in the format set out in Annex 1 of these Rules of Procedure, duly signed, primarily by e-mail, scanned (e-mail address: treasury@akk.hu) or, if this is not possible, by fax (fax number: +36 1 488-9425) or personally delivered to the official premises of ÁKK (1013 Budapest, Krisztina tér 2, floor 3, room 307). The evaluation of these offers and the conduct of the Buyback Auction shall be carried out by ÁKK in its in-house developed buyback auction system (the evaluation system of which shall at all times be the same as the Buyback Auction Board of the Trading System), in compliance with the relevant provisions of these Rules of Procedure. ÁKK will prepare a duly signed certificate of the accepted offers, which will be sent to the Primary Dealer(s) by e-mail on the day of the Buyback Auction.

2.4. Offers submitted incompletely or incorrectly, as well as offers arrived later than the specified deadlines, will not be accepted by ÁKK, and such offers will not participate at the Buyback Auction.

2.5. The Primary Dealer(s) participating at the Buyback Auction(s) must certify the authenticity of offers and data submitted by e-mail or fax at all times by duly signing once the statement as per Annex 2 of these Rules of Procedure.

2.6. The form and content of the offers submitted in accordance with Section 2.3. of these Rules of Procedure will be checked during the processing carried out by ÁKK.

2.7. If ÁKK intends to apply in advance price, amount or other similar restrictions within the framework of the Buyback Auction in addition to those specified in these Rules of Procedure, then ÁKK shall publish such restrictions in accordance with Section 1.3.

2.8. The Buyback Auction will be conducted with a non-public Order Book.

3. Evaluation of the offers

3.1. During the offer input period, offers may be modified or withdrawn, after which the party submitting the offer remains bound to his offer until his offer is rejected or partially or wholly accepted by ÁKK.

3.2. The offers listed in the Order Book will be evaluated on the basis of the yield of the offers in case of a fixed-rate Government Bond, whereas on the basis of the price of the offers in case of a floating rate Government Bond. Upon receipt of the offers, ÁKK determines the yield/price and amount until which the offers will be accepted. Offers are evaluated by ranking the yields/prices. Valid offers will be accepted starting from the offer with the highest yield/lowest price. If the aggregate of the valid offers at the accepted lowest yield level/highest price level exceeds the amount of Government Bonds determined for buyback, the remaining Government Bonds among the offers competing at this yield level/price level will be repurchased on a pro rata basis. (Taking into account the face value, among offers competing at the yield or price level of the accepted amount, the remaining Government Bonds will be accepted in proportion to the offered face value.)

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ÁKK reserves the right, subject to the offers received for the given Buyback Auction, to withdraw its intention to buy back and to declare the given Buyback Auction unsuccessful. In the event of an unsuccessful Buyback Auction, the total amount of the offers will be rejected.

3.3. The gross buyback price is determined by taking into account the settlement date.

In case of a fixed-rate Government Bond, the buyback price is calculated according to the following formula:

$$\text{Gross price} = \sum_{i=1}^{i=n} \frac{F_i}{(1+T_p)^{p_i+\frac{nbc}{w}}}$$

where:

$F_i =$ the i-th cash flow item of the bond, that is the payments due and outstanding on the value date of the Buyback (i=1 and 2, if there are two outstanding payments, or i=n=1 if only the last interest payment and redemption are due)
$T_a =$ annual yield to maturity
$T_p =$ yield to maturity corresponding to the length of the interest payment period
$f =$ the number of interest payments in one year

$T_p = \sqrt[f]{1+T_a} - 1$, and $T_a = (1+T_p)^f - 1$

$n =$ the number of the remaining cash flow items on the settlement date (value of n can be 1 or 2)
$d_i =$ the payment date (interest payment and redemption) of the i-th cash flow item
$d_s =$ the settlement date
$p_i =$ integer (0 or 1), the number of interest payments between the settlement date (d_s) and the date of F_i (that is d_i)
$nbc =$ the number of days between the settlement date and the next interest payment (or maturity) date
$w =$ the number of days in the current interest payment period, that is the number of days between the next interest payment and the previous interest payment ($w = d_i - d_{i-1}$)

In case of a floating rate Government Bond, the gross buyback price is calculated as follows:

Gross price = net price + accrued interest

(Accrued interest shall be calculated in accordance with the currently effective statement of ÁKK on government securities market calculations.)

3.5. Within the framework of the Buyback Auction, transactions are executed according to the Multi-priced Transaction Algorithm.

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4. Announcement of the results, settlement

4.1. Primary Dealers whose offer has been accepted at the given Buyback Auction will receive a confirmation of their accepted offers, as well as the related yields and prices through the Buyback Auction Board at 11.30 a.m. CET on the day of the relevant auction. In the case defined in Section 2.3. of these Rules of Procedure, ÁKK shall prepare a certificate of the accepted offers, which will be sent by e-mail to the Primary Dealers on the day of the relevant Buyback Auction.

4.2. ÁKK shall announce the result at 11.30 a.m. CET on the day of the relevant Buyback Auction. At the same time, ÁKK shall also publish the total face value of the submitted and accepted offers, as well as the accepted minimum yield or maximum price on the LSEG HUBUYBACK page and on the Bloomberg GDMA 3 page, as well as on the website of ÁKK (www.akk.hu).

4.3. If more than one offer of a single offeror is accepted, the Buyback shall be settled one by one, that is one offer at a time.

4.4. On the basis of the accepted offers, ÁKK as buyer and the Primary Dealer/Government Bond owner as seller will settle cash and securities transactions on the basis of the currently effective General Business Rules of the KELER Central Depository Ltd., the related Rules of Procedure as well as the Settlement Rules, in accordance with the provisions of these regulations applicable for securities sale and purchase transactions of DvP-type orders.

4.5. If the transaction concluded on the basis of the accepted offer is not settled on the Settlement Day due to the Primary Dealer’s fault, the Primary Dealer has the opportunity to settle the transaction on the next working day at the gross price indicated on the certificate of the non-performed transaction. ÁKK reserves its right to disqualify the non-performing Primary Dealer from the next Buyback Auction(s).

5. Validity of the Rules of Procedure

5.1. The provisions of these Rules of Procedure shall apply to Buyback Auctions to be held after 1 January 2025. Upon the entry into force of these Rules of Procedure, the Rules of Procedure dated 1 July 2022 on the same subject shall cease to be in force.

Annexes:

Annex 1: Auction offer
Annex 2: Statement

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