RULES OF PROCEDURE

FOR THE BENCHMARK YIELDS FIXING IN THE HUNGARIAN GOVERNMENT SECURITIES MARKET

Date of entry into force: 23 September 2022

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The Government Debt Management Agency Private Company Limited by Shares (hereinafter as: ÁKK), as an institution responsible for the placement of government securities and organizing the secondary government securities market, pursuant to Act CXCIV of 2011 on the economic stability of Hungary, considers the development of the government securities market and ensuring its overall liquidity and transparency as its fundamental task. In this spirit, ÁKK, together with the Primary Dealers and Non-PD Market Makers, operates the procedure of benchmark yields fixing in the government securities market in accordance with these Rules of Procedure.

In line with international practice, ÁKK calculates the benchmark yields on the basis of the actual bids submitted by the Primary Dealers and Non-PD market Makers under their price quoting obligation, on each Trading Day, based on the principles set out in these Rules of Procedure.

1. Definitions

1.1. For the purposes of these Rules of Procedure, the capitalized terms listed below shall have the meanings specified below:

Bloomberg:	the electronic trading support and communication system operated by Bloomberg LP;
BSE:	Budapest Stock Exchange Private Company Limited by Shares;
Eikon FX Trading:	the electronic trading support and communication system operated by Refinitiv;
Government Security:	government securities issued or to be issued publicly by the Hungarian State via auction exclusively in Hungary;
Institutional Investor:	the investors as defined in Section 60 of Article 5(1) of the Capital Market Act, namely: a) credit institutions, financial undertakings, investment undertakings, investment funds, investment fund managers, venture capital funds, venture capital fund managers, insurance companies, voluntary mutual insurance funds, private pension funds, health insurance bodies and pension insurance bodies responsible for the management of the Pension Insurance Fund, and b) all non-residents which are considered as such under their own laws;
Market Maker Contract:	the contract between ÁKK and the Non-PD Market Makers for the secondary market price quotation of Government Securities on the MTS Hungary system;
MTS Hungary:	the platform of the multilateral trading system operated by the MTS S.p.A. enabling the secondary market trading

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	of Government Securities; the venue for the performance of the secondary market price quoting obligation;
MTS S.p.A.:	MTS S.p.A. (registered office: via Tomacelli 146, Rome, Italy), acting as the operator of MTS Hungary;
Non-PD Market Maker:	an investment firm and/or credit institution that has concluded a Market Maker contract with ÁKK for the secondary market price quotation of Government Securities on the MTS Hungary system;
Primary Dealer:	an investment firm and/or credit institution that has concluded a contract with ÁKK for the public placement and trading of Government Securities;
Primary Dealer Contract:	the contract concluded between ÁKK and the Primary Dealers for the public placement and trading of Government Securities;
Statement:	statement on the financial calculations of the government securities market applied and proposed to apply by the Government Debt Management Agency Private Company Limited by Shares;
The Capital Market Act:	Act CXX of 2001 on the Capital Market, and its amendments, and also any other piece(s) of legislation replacing it in the future;
Trading Day:	the day on which MTS Hungary holds a trading day;
Yield Spread:	the difference between the yields, calculated according to the method defined in the Statement, belonging to the bid price and ask price of the Government Security, expressed in percentage points or basis points.

For the purposes of these Rules of Procedure, the capitalized but not specifically defined terms shall have the meaning specified in the Primary Dealer Contract and the Market Maker Contract.

2. Benchmark yields fixing

2.1. The benchmark yield is the average yield level calculated by ÁKK especially for the market of Institutional Investors within the Hungarian government securities market and for the maturities defined in these Rules of Procedure, on each Trading Day.

2.2. Benchmark yield shall be calculated in case of the following maturities:

a) maturities within a year: 3 (three), 6 (six) and 12 (twelve) months;
b) maturities beyond a year: 3 (three), 5 (five), 10 (ten), 15 (fifteen) and 20 (twenty) years.

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3. Basis for the benchmark yield fixing

3.1. The benchmark yields shall be calculated on the basis of the publicly issued Benchmark Discount Treasury Bills and Benchmark Government Bonds with a term-to-maturity of more than 90 (ninety) days, taking into account the maturity date, being subject to the price quoting obligation of the Primary Dealers as per the Primary Dealer Contract and that of the Non-PD Market Makers as per the Market Maker Contract.

3.2. The Benchmark Discount Treasury Bills with a maturity of 3 (three), 6 (six) and 12 (twelve) months shall belong to the group of Benchmark Discount Treasury Bills. Out of the Discount Treasury Bill series for which the Primary Dealers have a price quoting obligation as per Subsection 1) of Section 6.1 of the Primary Dealer Contract:

(i) That Discount Treasury Bill series shall qualify as the Benchmark Discount Treasury Bill with a maturity of 3 (three) months whose term-to-maturity, expressed in days, is closest to 92 (ninety two) days, on the day of the calculation of the given benchmark yield;

(ii) That Discount Treasury Bill series with an original maturity of 6 (six) and 12 (twelve) months shall qualify as the Benchmark Discount Treasury Bill with a maturity of 6 (six) and 12 (twelve) months whose issue date is closest to the calculation day of the benchmark yield concerned.

3.3. The Benchmark Government Bonds shall be the basis for the calculation of the benchmark yields for maturities beyond one year. Benchmark Government Bonds are, unless otherwise required by ÁKK, the on-the-run fixed-rate Government Bond series at the given time. A given Government Bond series shall qualify as a Benchmark Government Bond until (i) a new Government Bond series with the same maturity as the original maturity of the Government Bond is placed for the first time following its issuance or (ii) the first placement of an already placed Government Bond series with the given maturity via reopening. The date of benchmark status change in case (i) above is the first placement following the issue, i.e. the settlement date of the second auction, while in case (ii) above is the reopening, i.e. the settlement date of the first auction.

If any of the maturities stated in Subsection 2.2. b) of Section 2. of these Rules of Procedure is not auctioned temporarily or permanently due to ÁKK's decision, the date of the Benchmark Government Bond change as well as the new Benchmark Government Bond series will be designated by ÁKK after the settlement date of the last auction for the relevant maturity, taking into consideration the term-to-maturity, the coupon, the outstanding amount and the secondary market turnover of the off-the-run Government Bond series. ÁKK will inform Primary Dealers and Non-PD Market Makers of the newly designated Benchmark Government Bond series and the date of the Benchmark Government Bond change no later than 8 (eight) working days prior to the date of the change.

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4. Submission of yield offers

4.1. Primary Dealers and Non-PD Market Makers shall submit their bids for the benchmark yield fixing in the MTS Hungary system, according to the rules governing the secondary market price quoting obligation specified in Section 6.1. and 6.2. of the Primary Dealer Contract and in Section 5.1 and 5.2 of the Market Maker Contract. Primary Dealers and Non-PD Market Makers must ensure that, unless otherwise required by ÁKK, 1 (one) bid-offer pair is recorded in the MTS Hungary system for each Benchmark Government Bond and in case of Primary Dealers for each Benchmark Discount Treasury Bill designated to them pursuant to Subsection (2) of Section 6.1 of the Primary Dealer Contract, in the periods between 9.15-9.30 a.m. and 1.45-2.00 p.m. on each Trading Day. Benchmark yields shall be calculated, unless otherwise required by these Rules of Procedure or ÁKK, on the basis of the bid-offer pairs recorded in the period between 1.45-2.00 p.m.

If ÁKK wishes to stipulate other deadline than that specified above, it shall notify the Primary Dealers and Non-PD Market Makers in writing at least 5 (five) working days in advance.

4.2. The Primary Dealer and the Non-PD Market Maker is obliged to check by 9.15 a.m. on the Trading Day that the MTS Hungary system used by them is in proper working order. The Primary Dealer and the Non-PD Market Maker must report the fact of any detected malfunction in writing to ÁKK by the above time.

4.3. If the MTS Hungary system is not operational until 1.45 p.m. on the Trading Day, Primary Dealers and Non-PD Market Makers must fulfil their price quoting obligation for the Benchmark Government Bonds and Benchmark Discount Treasury Bills as per Section 4.1 of these Rules of Procedure, in case of the explicit request of ÁKK, through the Eikon FX Trading system, the Bloomberg or by filling in the excel table sent by ÁKK via email around 2.00 p.m.

5. Calculation of benchmark yields

5.1. Benchmark yields shall be calculated by ÁKK within 30 (thirty) minutes after the afternoon time interval defined according to Section 4.1. of these Rules of Procedure.

5.2. When calculating the benchmark yield, for all Benchmark Discount Treasury Bills and Benchmark Government Bonds, ÁKK shall take into account only the bids submitted according to these Rules of Procedure by the Primary Dealers and Non-PD Market Makers with a price quoting obligation in respect of the given Government Security series, namely only one bid pair per Primary Dealer and Non-PD Market Maker, which will be established by ÁKK from the bid and offer yields of the submitted bid pairs by the Primary Dealer/Non-PD Market Maker, and which will result in the bid pair quoted with the narrowest yield spread.

5.3. On the given Trading Day, the benchmark yield for the given maturity shall be the arithmetic average of the yields as per the offers and bids pursuant to Sections 5.1. and 5.2. of these Rules of Procedure, which shall be determined by ÁKK.

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6. Alternative calculation method

6.1. The need for using alternative calculation method

If, due to a volatile market environment, the amount of quotations according to the relevant rules is not available and therefore it is not possible to carry out the benchmark yield fixing on the basis of quotations submitted in the MTS Hungary system, ÁKK reserves the right to calculate benchmark yields in a different way from Sections 4. and 5. of these Rules of Procedure. After making such a decision, ÁKK will immediately inform the Primary Dealers and the Non-PD Market Makers, indicating the reason, and publish a communication on its website www.akk.hu.

6.2. Alternative fixing methodology

In the event Section 6.1. is applied, for the Government Securities under price quotation, ÁKK shall take into account the quotations (bid and ask yields) quoted by Bloomberg users for their clients on the Bloomberg "HGB Govt" and "HTB Govt" pages, using the "Allquotes (ALLQ)" filter. At a given time within the time frame between 1.45 - 2.00 p.m. on the given Trading Day, ÁKK shall download the average bid and average ask yields calculated by Bloomberg for each concerned Government Security, based on the bid and ask yields available as described above (which are listed on the ALLQ page of Bloomberg under the name FIT COMPOSITE or, in the absence of the former, under the name BVAL), and ÁKK shall calculate the benchmark yields based on the arithmetic average of these average bid and ask yields.

7. Publication of benchmark yields

7.1. The result of the benchmark yields fixing shall be published by ÁKK on the given Trading Day, within 30 (thirty) minutes of the time interval determined according to Section 4.1. of these Rules of Procedure, on the page HUBONDFIX of Refinitiv, the GDMA (6) page of Bloomberg, and also on ÁKK's website (www.akk.hu).

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