

## **Decree No. 5/2007. (III. 28.) PM of the Minister of Finance**

on including derivative transactions in the ordinary cover and on the registration of derivative transactions included in the ordinary cover

By virtue of the authorisation under Section 27 Subsection 2 point a) of Act No. XXX. of 1997 on Mortgage Banks and Mortgage Bonds and according to my responsibility as defined in Section 1 point g) of the Government Decree No. 169/2006. (VII. 28.) on the responsibilities and duties of the Minister of Finance I hereby issue the following decree:

### *Section 1.*

(1) If the mortgage bank has engaged in derivative transactions in connection with the mortgage bonds issued by the mortgage bank or in connection with the cover of the mortgage bonds, the mortgage bank may include such derivative transactions in the ordinary cover on condition that the requirements of the Act No. XXX. of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter: "Mortgage Bank Act") and the requirements set by this decree are met.

(2) Within the meaning of this decree:

1. nominal value: is the sum of all cash flows until maturity as calculated on the current day based on the known deals and their conditions;
2. net value: is the net present value of the derivative transaction on the current day adjusted by the collateral given to, or received from the derivative partner.

### *Section 2.*

The derivative partner has to be notified on the day when the derivative transaction is included in or deleted from the register of cover.

### *Section 3.*

Obligations towards the mortgage bank deriving from the derivative transaction should be collateralised by cash, money on account, security or other financial instrument whose market price is listed publicly or can be determined at that time independent from the parties.

### *Section 4.*

- (1) Derivative transactions based on commodities may not be included in the cover.
- (2) Under cover assets shown in their nominal and present value derivative transactions have to be shown in their nominal and present value as well.
- (3) To register derivative transactions on a nominal value basis, derivative transactions shall be decomposed to elemental cash flows, which will be further on allocated to the principal or interest side of the cover, according to their character. The collateral given to, or received from the derivative partner shall be counted to the principal part of the ordinary cover.
- (4) To register derivative transactions on a present value basis, the net value of the derivative transaction shall be counted to the ordinary cover.

(5) The value of foreign currency coverage, the coverage based on foreign currency as well as the value of mortgage bonds denominated in foreign currencies shall be calculated in Hungarian Forint using the exchange rates published by the National Bank of Hungary on the current day.

*Section 5.*

(1) When calculating the net value of the derivative transaction, the present value of the derivative transaction on the current day can only be adjusted by the collateral given to, or received from the derivative partner, if

- a) the contract or a separate agreement contains a credit support annex,
- b) the mortgage bank can take advantage of the collateral unconditionally and immediately,
- c) the margin calls are reviewed on a regular basis.

(2) The collateral as defined in Subsection (1) should be regarded as part of the derivative transaction included in the cover, even if such collateral is held by the derivative partner.

(3) The interest accrued on the cash or on the securities offered as collateral of the derivative transaction shall not be considered to be collateral.

*Section 6.*

This decree shall enter into force 8 days after its announcement.

*Dr. János Veres*  
Minister of Finance