

Interactive Brokers Central Europe Zrt.

**ANNOUNCEMENT**

**on the Safeguarding of Clients' Assets**

Valid from: 19 January 2022

This notice (“Notice”) is intended to provide information about the safeguarding of clients’ assets in compliance with the provisions of Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council (hereinafter referred to as the Regulation) and any relevant secondary legislation and applicable enacting legislation or regulation as regards organizational requirements and operating conditions for investment firms and terms defined in that Directive, Article 49. (2)-(7).

Interactive Brokers Central Europe Zrt. (“IBCE”) is regulated by the National Bank of Hungary (*Magyar Nemzeti Bank*) (“MNB”) as a MiFID investment firm. IBCE becomes responsible for protecting your assets from the time they are received at an IBCE’s account or custodian until the time they are disbursed to a third party at clients’ request. IBCE is obliged to treat your assets with all due care and prudence and will provide regular (daily/monthly/annual) statements confirming your holdings at IBCE.

Your assets at IBCE will fall into two broad categories, each having its own asset protection methodology:

### **ASSETS IN THE FORM OF CASH**

IBCE will hold your cash in a bank account opened by IBCE and specified for use to hold client funds as selected by IBCE on the basis of a due diligence review.

Your cash is held on a pooled, omnibus basis. Your individual holdings are not specifically allocated to any single institution, nor recognised by the bank on an individual basis. Accordingly, you should understand that your exposure to risk of loss due to a failure at one of the institutions described may be mutualised with other clients of IBCE.

In the event of a default at a bank holding IBCE client funds, this loss of principal falls back to IBCE clients as a whole and allocation of the loss will be on a pro-rata basis. IBCE does not bear the risk of a failure of one of the banks at which client money is held.

### **ASSETS IN THE FORM OF FINANCIAL INSTRUMENTS**

IBCE will hold your financial instruments (stock, options, futures, bonds, other securities and derivatives) - in accordance with Subsections (1)-(3) of Section 57 of Investment Act – with custodians at IBCE affiliates within the Interactive Brokers Group or at unaffiliated third parties as sub-custodians. All accounts are held on a pooled basis.

For client financial instruments deposited with third parties, due diligence is undertaken on both the third party with whom the assets are deposited and the legal system of the jurisdiction in which they are held.

#### **1. Introduction**

The purpose of this Notice is to provide you with:

- An explanation of the key features of the regulatory regime that applies to the safeguarding of client assets;
- An explanation of what constitutes client assets under that regime;
- The circumstances in which that regime applies and does not apply;
- An explanation of the circumstances in which IBCE will hold client assets, deposit client assets with a third party and deposit client assets with a third party outside of Hungary; and
- The arrangements applying to the holding of client assets and the relevant risks associated with these arrangements.

#### **2. Key features of the regulatory regime applicable to client assets**

Where IBCE provides investment services to you in accordance with (but not limited to) our Customer Agreement and Business Rules and General Terms and Conditions, we have regulatory obligations to you as our client in respect of your client assets. The manner in which we safeguard client assets is governed by (but not limited to) the following:

- Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (“Investment Act”),
- European Union (Market in Financial Instruments) Regulations 2017 (“MiFID Regulations”), in particular, Schedule 3 to the MiFID Regulations in respect of the ‘Safeguarding Client Financial Instruments and Funds’; and
- Commission Delegated (EU) Directive 2017/593 with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits (“Commission Delegated Directive”),

collectively referred to in this Notice as the “Client Assets Regime”.

The fundamental objective of the Client Assets Regime is to regulate and safeguard the handling of client assets by regulated investment firms (including IBCE) and other in-scope firms.

The  
Investment  
Act set out

**It is important to bear in mind that the Client Assets Regime cannot fully eliminate all risks relating to clients’ assets.**

the following requirements which investment firms (including IBCE) must adhere to:

- **Segregation:** IBCE must hold client assets separate from IBCE’s own assets and maintain accounting segregation between IBCE’s own assets and clients’ assets.
- **Designation and Registration:** IBCE must ensure that client assets are clearly identified in its internal records and are separately identifiable from IBCE’s own assets.
- **Reconciliation:** IBCE must keep accurate books and records as are necessary to enable it, at any time and without any delay, to provide an accurate and independent record of the client assets held for each client.
- **Daily Calculation:** Each business day IBCE must ensure that the aggregate balance on its client asset bank accounts as at the close of business on the previous working day is equal to the amount it should be holding on behalf of its clients.
- **Client Disclosure and Client Consent:** IBCE must provide information to its clients regarding how and where their client assets are held and the resulting risks thereof. IBCE is also required to inform its clients if their client assets are being held within the Client Assets Regime. IBCE is required to provide this Notice to retail clients.
- **Risk Management:** IBCE must ensure it has and applies systems and controls that are appropriate to identify (among other obligations) risks in relation to client assets and should put in place mitigations to counteract these risks. In addition, IBCE is required to appoint a person to the role of Safeguarding Officer. IBCE is also required to have in place a Policy on the Safeguarding of Client Assets.
- **Client Asset Examination:** IBCE is required to engage the services of its external auditor to report, at least annually, on IBCE’s safeguarding of client assets.

### 3. An explanation of what constitutes “client assets” under the Client Asset Regime

The term “client assets” means client funds and/or client financial instruments, as outlined below:

- Client funds, electronic funds, current and deposit account balances which are held by a firm or owed to the client (by the firm) on behalf of clients to whom a firm provides regulated financial services but does not include funds which relate exclusively to unregulated financial services (for example, direct property investments).

- Client financial instruments means any “financial instrument” as defined in the MiFID Regulations and the Investment Act. Client financial instruments can include, for example, shares, bonds and units in collective investment schemes (including units or shares in qualifying money market funds).

#### **4. The circumstances in which the Client Asset Regime applies and does not apply**

The Client Assets Regime only applies to client funds and/or client financial instruments that have been received by IBCE in respect of a regulated financial service. Electronic funds and other payable orders will be “client funds” from the time of receipt by IBCE. Financial instruments used as collateral to support a margin loan under the provision in the Securities Lending and/or Investment Loan Framework Agreement/Business Rules and General Terms and Conditions are not covered by the Client Asset Requirements. IBCE’s right to use these financial instruments ceases upon satisfaction of your obligations owed to IBCE.

Client assets will cease to be client assets under the Client Assets Regime when:

- Client funds are paid or transferred to you, either directly into an account with an eligible credit institution or a relevant third party in your name; or
- Client funds are paid or transferred to a third party on your written instruction, and are no longer under the control of IBCE.

#### **5. An explanation of the circumstances in which IBCE will hold client assets, deposit client assets with a third party and deposit client assets with a third party outside Hungary**

IBCE is deemed to hold client assets where they have been lodged or entrusted to IBCE by, or on behalf of, a client and where IBCE holds those client assets on behalf of that client.

IBCE will provide safe custody, brokerage and associated services for clients and as such, IBCE may hold your client assets, or undertake a transaction for you, which requires IBCE to move your client assets to a bank, custodian, qualifying money market fund or an affiliated investment firm (each a “Third Party”) located outside of Hungary or the European Economic Area (“EEA”). In such circumstances the legal and regulatory regime applying to such Third Party, and your rights in relation to the client assets, may be different to those which would apply if such client assets were held by a bank, custodian or affiliated investment firm in Hungary or in the EEA. In the event of a default or failure of that Third Party, the client assets may be treated differently than if the client assets were held by a bank, custodian or affiliated investment firm in Hungary or in the EEA.

Where client funds are placed in a qualifying money market fund, the units or shares in the fund will be protected in accordance with the requirements for holding client financial instruments under the Client Assets Regime.

IBCE may place some or all of your client funds in qualifying money market funds. IBCE will place client funds with reputable banks and qualifying money market funds. IBCE will have predetermined internal limits on the amount of funds placed with each bank. The purpose of using a qualifying money market fund is twofold:

- diversification/reduction in concentration risk (not over reliant on a small number of banks) and
- presents an alternative location, other than banks, for client funds.

This may be necessary where it is difficult to source a sufficient number of suitable banks or where one or more banks will not accept any additional funds. All client funds are pooled.

We will not deposit client financial instruments held on your behalf with a Third Party in a country outside of Hungary/EEA that does not regulate the holding and safekeeping of client financial instruments for the account of another person unless: (a) the nature of the client financial instruments or of the investment services connected with those instruments

requires them to be deposited with a Third Party in a country outside of Hungary/EEA; or (b) where you are a Professional Client, you request in writing that we deposit them with a Third Party in a country outside of Hungary/EEA.

Your funds will be held by IBCE as client funds in pooled client funds bank accounts with one or more Third Parties. Your funds will be segregated from IBCE's own funds and will be held in an account designated as a Client Asset Account and in the name of IBCE.

IBCE will exercise due diligence in the selection, appointment and periodic review of any Third Party holding client assets. IBCE will undertake an initial and on-going due diligence of such a Third Party. Notwithstanding the foregoing, IBCE shall not be responsible for any acts, omissions or default of any such Third Party.

Information on the institutions with which client assets are to be held can be found at:

Institution	Location	Website
<b>Interactive Brokers LLC</b>	One Pickwick Plaza Greenwich, CT 06830 USA	<a href="https://www.interactivebrokers.com/">https://www.interactivebrokers.com/</a>
<b>Interactive Brokers UK Limited</b>	Level 20 Heron Tower, 110 Bishopsgate London EC2N 4AY, UK	<a href="https://www.interactivebrokers.co.uk/">https://www.interactivebrokers.co.uk/</a>
<b>Interactive Brokers Ireland Limited</b>	2 Dublin Landings, N. Wall Quay, North Dock Dublin D01 V4A3, Ireland	<a href="https://www.interactivebrokers.ie/">https://www.interactivebrokers.ie/</a>
<b>BME Clearing S.A.U.</b>	Plaza de la Lealtad, 1 28014 Madrid, Spain	<a href="https://www.bmeclearing.es/ing/">https://www.bmeclearing.es/ing/</a>
<b>Euroclear Bank SA/NV</b>	1 Boulevard du Roi Albert II 1210 Brussels, Belgium	<a href="https://www.euroclear.com/en.html">https://www.euroclear.com/en.html</a>
<b>Skandinaviska Enskilda Bank</b>	Kungstradgardsgatan 8 106 40 Stockholm, Sweden	<a href="https://seb.se/">https://seb.se/</a>
<b>Australia and New Zealand Banking Group Limited</b>	10 Collyer Quay, #22-00 Ocean Financial Centre Singapore 049315	<a href="https://www.anz.com">https://www.anz.com</a>
<b>JP Morgan Chase Bank N.A. (New York Branch)</b>	4 New York Plaza, 13th Floor New York, NY 10004, USA	<a href="https://www.jpmorgan.com/">https://www.jpmorgan.com/</a>
<b>JP Morgan Chase Bank AG (German Branch)</b>	Taunus Turm, Taunstor 1 60310 Frankfurt am Main, Germany	<a href="https://www.jpmorgan.com/">https://www.jpmorgan.com/</a>
<b>JP Morgan Chase Bank N.A. (London)</b>	25 Bank Street, Canary Wharf, Floor 19 London E145JP	<a href="https://www.jpmorgan.com/">https://www.jpmorgan.com/</a>
<b>Oversea-Chinese Banking Corporation Limited</b>	OCBC Centre #13-00, 65 Chulia Street Singapore Singapore 049513	<a href="https://www.ocbc.com/">https://www.ocbc.com/</a>
<b>BNP Paribas Securities Services Hungary Branch</b>	H-1062 Budapest, Teréz körút 55-57. Hungary	<a href="https://www.bnpparibas.hu/en/">https://www.bnpparibas.hu/en/</a>
<b>BNP Paribas Securities Services Poland Branch</b>	Wronia 31, 00-846 Warszawa, Poland	<a href="https://www.bnpparibas.pl/english-info">https://www.bnpparibas.pl/english-info</a>
<b>Bank of China Limited, Luxembourg Branch</b>	37/39 Boulevard du Prince Henri L-1724 Luxembourg, Luxembourg	<a href="https://www.bankofchina.com/lu/en/">https://www.bankofchina.com/lu/en/</a>
<b>Raiffeisen Bank Zrt.</b>	H-1133 Budapest, Váci út 116-118. Hungary	<a href="https://www.raiffeisen.hu/web/english">https://www.raiffeisen.hu/web/english</a>

## 6. The arrangements applying to the holding of client assets and the relevant risks associated with these arrangements

Clients should be aware that while the Client Assets Regime imposes obligations on IBCE to segregate client assets from IBCE's assets, as well as other requirements, the Client Assets Regime does not protect or guarantee the value of the client assets. Furthermore, IBCE may substitute the return of your client assets with the cash equivalent in the event of a resolution plan being adopted in respect of IBCE under the European Union (Bank Recovery and Resolution) Regulations 2015 and 2019, which implement the EU Recovery and Resolution Directive (Directive 2014/59/EU) in Hungary.

IBCE will obtain from the relevant Third Party with whom the client assets are lodged, acknowledgement that the account is a Client Asset Account containing client assets and reconcile Client Asset Accounts as prescribed under the Client Asset Regime. IBCE will ensure that the amount of client assets which IBCE holds on your behalf is equal to the amount which IBCE should be holding for you.

Section 60 (1) of the Investment Act states that IBCE is required, on receiving any client funds, promptly to place those funds into one or more accounts opened with a Central Bank, an authorised credit institution or a qualifying money market fund.

### **Risk of Pooling**

Your client assets will be held at a Third Party with other clients' assets as part of a pooled account. In the case of any such pooled client account, IBCE will ensure that such account is in the name of IBCE, is designated as a Client Asset Account and that IBCE is entitled to issue instructions in respect of such accounts.

In the case of pooled investments IBCE do not allocate your funds to a particular bank or qualifying money market fund. Therefore, in the event of a shortfall in funds arising from a default of a Third Party, you may not receive your full entitlement (all your money back) and you may share in any shortfall, on a pro-rata basis. For example, if a particular bank holding 5% of IBCE client funds defaults, you may not receive the return of 5% of your funds. If this bank returned 50% of funds you would receive  $5\% * 50\%$  i.e. 2.50% of your funds held at that particular bank. Your funds held at other banks would not be affected. The policy of using many different banks/qualifying money market funds to hold client funds reduces this potential risk.

### **Counterparty Risk**

Although IBCE will seek to ensure that adequate arrangements are made to safeguard your ownership rights, in the event of a Third Party becoming insolvent, your investments may be at risk.

### **Risk of Fraud**

The risk of fraud relates to an intentional deception made for personal gain or to damage another individual which may be perpetrated internally or externally to a firm.

## **7. Protecting your client assets**

IBCE is prudent in its choice of each Third Party and monitors their performance on an on-going basis. IBCE performs regular risk assessments on each chosen Third Party. Any Third Party chosen by IBCE is appropriately authorised in the jurisdiction in which it is situated and is subject to appropriate prudential and client asset supervision.

IBCE is a member of the Investor Protection Fund established and operated in Hungary ("IPF"). IPF provides limited compensation to investors funded from the contributions paid by its members and from other revenues as required under law in the event that any of its members becomes subject to liquidation or insolvency proceedings. IPF shall compensate investors entitled to compensation for claims up to a maximum amount of EUR 100 000 per person and per IPF member on the aggregate. The amount of compensation is calculated at the official MNB rate of exchange in effect on the starting date of the liquidation proceedings. The amount of compensation paid by the Fund is one hundred per cent up to one

million forints, and for amounts over the one-million forint limit, one million forints and ninety per cent of the amount over one million forints. Limits and conditions are set out in the Act CXX of 2001 on the Capital Market. Full details of the IPF are available on <https://bva.hu/en/>, further details are available in the Announcement on the protection of investors:

[https://gdcdyn.interactivebrokers.com/Universal/servlet/Registration\\_v2.formSampleView?formdb=4531](https://gdcdyn.interactivebrokers.com/Universal/servlet/Registration_v2.formSampleView?formdb=4531)