



# Investor Protection Fund

## AFTER THE STORM

Dealing with the biggest Hungarian brokerage scandals

# OUTLINE

---

History of IPF, compensation process

---

Brokerage scandals in 2015

---

Compensation

---

Improving investor protection

# The Investor Protection Fund

---

IPF has been operating since 1997  
(Directive 97/9/EC)

---

compulsory membership

---

13 compensation cases between 1998 and  
2001

---

income: membership fees

---

assets were increasing until 2014

# Compensation process in a nutshell

---

IPF-member under liquidation

---

written application is a must, 1 year deadline

---

compensation only after the missing assets

---

securities: compensation based on the average price achieved during the 180-day period immediately before the liquidation proceedings

---

money: based on the official exchange rate of the central bank at the time of the starting day of the liquidation process.

---

compensation is maximized in EUR 100,000 (earlier EUR 20,000), 10% own contribution over HUF 1 million

# 2015

Brokerage scandals ignite domino effect: 3 brokerage firms collapsed within 2 months, also having cross-border implication

- all the affected firms had been members since the establishment of IPF
- companies owned directly or indirectly by Hungarian private persons
- the deficit added up due to years and decades of malpractice

Embezzlement and brokerage firms' fraudulent activities

- the money received from the clients partly had never been invested
- the clients had not received any legitimate securities for their money
- the firm disposed of the asset as if it was the firm's own asset

# BUDA-CASH Brokerage Ltd.

---

Buda-Cash and the DRB bank group (4 banks)

---

Four regional banks owned by the same group that owns Buda-Cash

---

Supervisory investigation at the DRB bank group detected unusual securities transactions and led to comprehensive examination at Buda-Cash

---

73,000 clients were affected, of whom 15,600 were investors of Buda-Cash

---

Buda-Cash illegally used the clients' assets for several years and also falsified its reports to be submitted to the supervisory authority

---

Investors of Buda-Cash were given HUF 16 billion (EUR 51.7 million) as a compensation by IPF until 30th September, 2018.

# QUAESTOR Securities and Brokerage Ltd.

---

The IPF member brokerage firm is part of a group of firms

---

One of the member company issued bonds since 2007, with significantly higher interests than those offered by banks, paired with an intense marketing campaign

---

Bonds traded by the brokerage firm, with the option of repurchase offered permanently

---

The clients regarded the bonds as deposits, not real securities, thus they weren't aware of the risk of the bonds

---

March 2015: due to the bankruptcy of Buda-Cash, more and more clients wanted to take out their money → the issuer declared bankruptcy

# QUAESTOR Securities and Brokerage Ltd. II.



Supervisory authority revealed:

bonds registered in the central depository: HUF 60 billion (EUR 195 million)  
the value of bonds registered in the books of the brokerage firm (Quaestor):  
HUF 210 billion (EUR 681 million)  
**deficit: HUF 150 billion ~ EUR 486 million**



The brokerage company submitted falsified reports on its clients' assets to the supervisory authority and also to IPF; the reports contained only those bonds that were registered in the central depository



Other securities and money instruments were not missing



The IPF paid HUF 88.8 billion (EUR 284.1 million) compensation to the clients until 30th September, 2018.



# QUAESTOR Securities and Brokerage Ltd. III.

## **Question:**

Are investors entitled to get compensation in connection with the missing bonds?

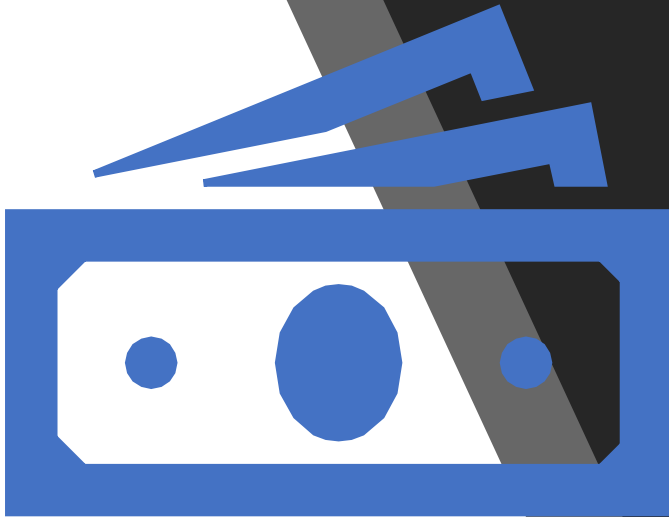
## **IPF's response:**

YES, missing bonds are eligible for compensation, however existing but worthless bonds are not covered by the compensation!

Investors of Quaestor are to be given HUF 90 billion (EUR 293 billion) as a compensation by IPF in connection with the missing bonds

## **Government's decision:**

a new compensation fund to be set up, specialized in the compensation of losses not covered by IPF up to EUR 100,000



# HUNGARIA Securities Ltd.

---

Small brokerage firm (ca. 1200 clients)

---

The money received from the clients partly had never been invested

---

Some of the investors and their assets had never been registered

---

False account statements were issued

---

Worthless bonds issued by other companies of the owners of Hungaria Securities were sold

---

When managing its clients' portfolio, the brokerage firm put these worthless bonds into the clients' portfolio instead of government securities

---

The final value of the missing assets is being investigated by the liquidator

---

Clients were given HUF 808 million (EUR 2.6 million) as a compensation until 30th September, 2018

# Compensation Fund

The government intended to compensate the investors for damages caused by the brokerage firms (Quaestor, Hungaria Securities) selling worthless bonds issued by another member of the company groups

The Parliament established another fund specialized in compensating investors suffering losses from this fraudulent activity (with an upper limit of EUR 100,000)

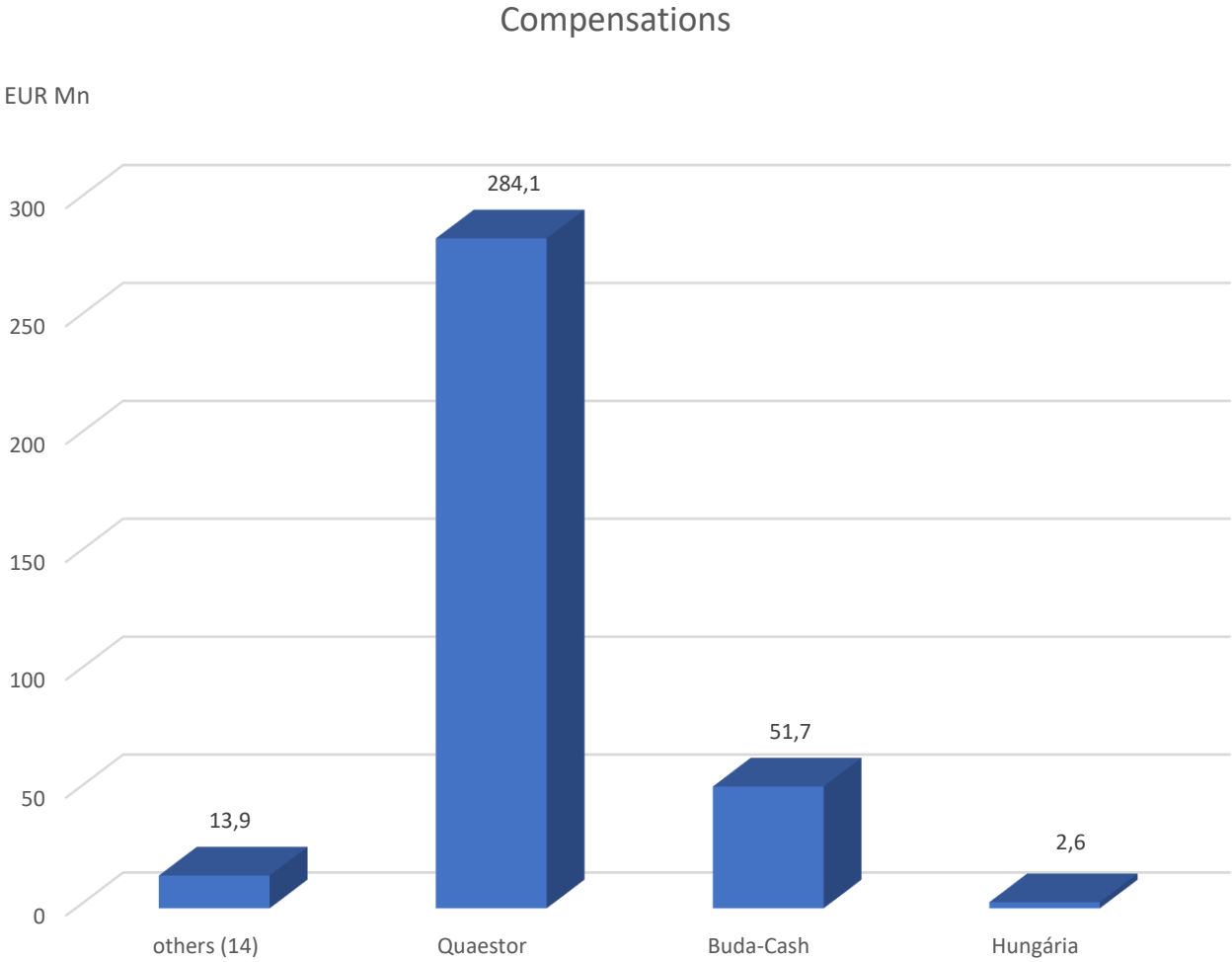
Managing this compensation process also has been the task of IPF

The total amount of this additional compensation is expected to be HUF 44 billion ~ EUR 143 million

Compensation financed by a state surety secured loan for 10 years

The loan is financed from the contributions of the IPF members

# Compensation paid by the IPF



# Improving investor protection

01

Maximum compensation was raised from EUR 20,000 to EUR 100,000 (same as the deposit insurance)

02

Investors can check their balances on the electronic platform operated by the central bank

03

Investment service providers are under a stricter regulation (auditors, chief responsible persons, IT-system)



## Expected changes

---

simplified application (no contract needed)

---

reducing judging time,  
lengthening application time

---

tightening the responsibility of the liquidator

---

asset pricing regulations

# Thank you for listening!

Csaba Kontár dr.

Legal counsel

Investor Protection Fund, Hungary

<https://bva.hu>

[kontarcs@bva.hu](mailto:kontarcs@bva.hu)



H-1092 Budapest, Köztelek utca 6.