

ELECTRONIC SIGNATURES IN HUNGARY

WHAT IT MEANS FOR HR?



What is an electronic signature?

- ▶ An electronic signature is a technical process logically associated with a document in which two (or more) individuals or organizations (the signatories) agree to rely on in order to express their intent to sign.
- ▶ Three components are necessary: a document, a signatory and an e-signature tool. While the tool most commonly used for handwritten signatures is a simple pen, electronic signature tools are more complex.
- ▶ The term "electronic signature" is a broad category that encompasses many types (or levels) of electronic signatures. Depending on the country it is used in, there are differences in purpose, technical implementation, legal and cultural acceptance of electronic signatures.
- ▶ Most civil law countries (including the EU and most countries in South America and Asia) support a "tiered" approach with higher levels of signature called digital or qualified electronic signatures.
- ▶ Most common law jurisdictions (US, Canada, Australia, etc.) are typically more technology-neutral.
- ▶ In addition, specific industries (e.g. healthcare or banking) or specific documents (e.g. marriage or adoption contracts) often require a higher level of e-signature or handwritten signature.



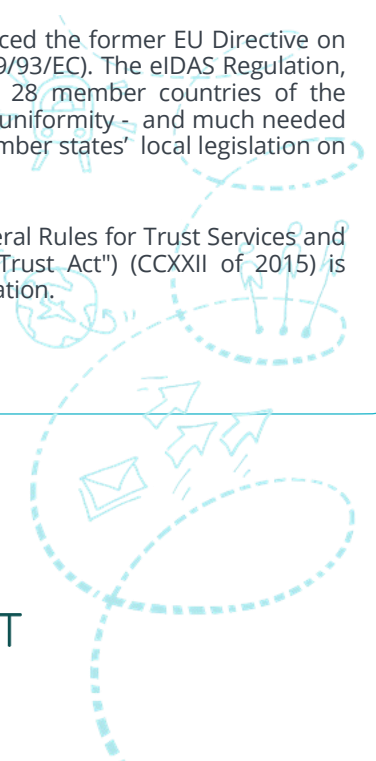
What are the laws and regulations in Hungary?

Contracts in Hungary do not necessarily require a signature to be valid (Civil Code, Section 6:63). Under the Labor Code, legal statements can be made without formal requirements, unless otherwise required by regulations or agreement of the parties. Upon an employee's request, legal statements, which otherwise do not have a written requirement, should be made in writing by the employer.

On July 1, 2016, Regulation (EU) No 910/2014 on electronic identification and trust services for electronic transactions in the internal market (the "eIDAS Regulation")

came into force and replaced the former EU Directive on electronic signatures (1999/93/EC). The eIDAS Regulation, directly applicable in the 28 member countries of the European Union, brought uniformity - and much needed clarity - among the EU member states' local legislation on electronic signatures.

Hungary's Act on the General Rules for Trust Services and Electronic Transactions ("Trust Act") (CCXXII of 2015) is based on the eIDAS Regulation.



Are electronic signatures valid?

Yes! Not only e-signatures are valid ...



... But they are actually more secure

Under eIDAS, a valid electronic signature may be **simple**, **advanced** or **qualified**.

All three levels of signature are legally **valid** and defensible in court.

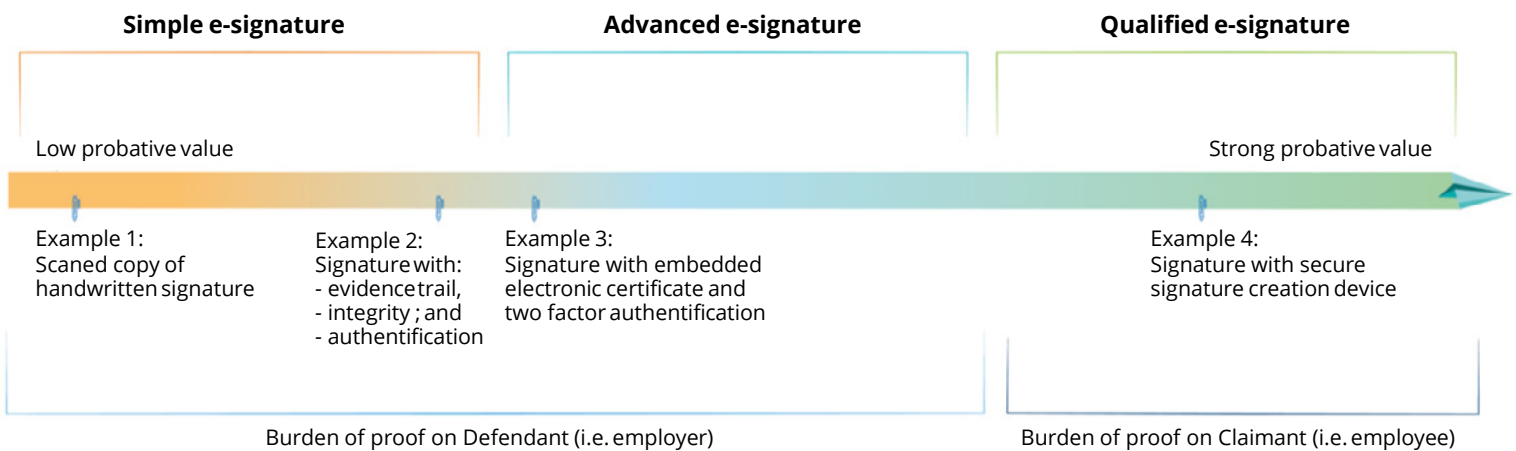
However, the **probative value** (ie. how easily the validity of the signature can be proven in court) will vary depending on the type (or level) of electronic signature as illustrated by the graph.

E-signatures almost always offer higher guaranties than handwritten signatures, regardless of the level of the e-signature being used:

-the **evidence trail** associated with superior electronic signature tools will allow defendant to prove the validity of the signature.

-the use of time-stamping and encryption technologies will provide a much higher level of confidence in the **integrity** of an electronically-signed document compared to the limited level of protection provided by a handwritten original (unless notarized).

Probative value scale



For **simple and advanced electronic signatures**, it is the employer's responsibility to bring evidence of the validity of the signature if an employee challenges the document.

Advanced signature solutions typically offer a more robust evidence file in that regard than simple e-signatures solutions.

Qualified electronic signatures offer the same probative value as a handwritten signature ► it is the responsibility of the party challenging the validity of the signature (most likely the employee) to bring evidence of the signature's invalidity.

What level of e-signature is recommended for HR documents?

The vast majority of HR-related documents are suitable for simple or advanced electronic signatures. Simple and advanced electronic signature are recommended for documents with a risk factor ranging from low to medium. These are often external documents with limited risk and typically include employment agreements, company policies, employee handbook, performance reviews, expense report, etc.

Qualified electronic signatures, on the other hand, would only be justified for very sensitive documents such as credit or life insurance agreements or when specifically required by law: certain uses in the healthcare world, for example, have constraints that require qualified e-signatures.



HR Best Practices

While the decision ultimately relies on how risk-adverse an employer might be, employers might elect to use an advanced electronic signature solution for employment agreements as well as other HR-related agreements, and rely on a strong simple e-signature solution for other less sensitive HR documents such as policies and performance reviews.



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