

# Anti-money laundering and counter-terrorist financing measures

# Hungary

## 3<sup>rd</sup> Enhanced Follow-up Report

December 2019

Follow-up report



**The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL** is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

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## *Hungary: 3<sup>rd</sup> Enhanced Follow-up Report*

### I. INTRODUCTION

1. The mutual evaluation report (MER) of Hungary was adopted in September 2016. The report analyses the progress of Hungary in addressing the technical compliance deficiencies identified in its MER. Re-ratings are given where sufficient progress has been made. This report also analyses progress made in implementing new requirements relating to FATF Recommendations which have changed since the Hungary's 2<sup>nd</sup> enhanced follow-up report was adopted. This concerns notably changes to Recommendation 2. Overall, the expectation is that countries will have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Hungary has made to improve its effectiveness. A later follow-up assessment will analyse progress on improving effectiveness which may result in re-ratings of Immediate Outcomes at that time.

### II. FINDINGS OF THE MUTUAL EVALUATION REPORT

2. The MER and 2<sup>nd</sup> enhanced follow-up report rated Hungary as follows for technical compliance:

**Table 1. Technical compliance ratings, December 2018**

<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>
LC	LC	LC	C	LC	LC	LC	PC	C	LC
<b>R 11</b>	<b>R 12</b>	<b>R 13</b>	<b>R 14</b>	<b>R 15</b>	<b>R 16</b>	<b>R 17</b>	<b>R 18</b>	<b>R 19</b>	<b>R 20</b>
LC	PC	PC	LC	C	LC	LC	PC	LC	C
<b>R 21</b>	<b>R 22</b>	<b>R 23</b>	<b>R 24</b>	<b>R 25</b>	<b>R 26</b>	<b>R 27</b>	<b>R 28</b>	<b>R 29</b>	<b>R 30</b>
LC	LC	LC	PC	LC	LC	LC	LC	C	C
<b>R 31</b>	<b>R 32</b>	<b>R 33</b>	<b>R 34</b>	<b>R 35</b>	<b>R 36</b>	<b>R 37</b>	<b>R 38</b>	<b>R 39</b>	<b>R 40</b>
LC	PC	PC	LC						

*Note:* There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

*Source:* Hungary Mutual Evaluation Report, September 2016, <https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-hungary/16807161b4> Hungary 1<sup>st</sup> Enhanced Follow-up Report, December 2017 <https://rm.coe.int/moneyval-2017-21-hungary-1st-enhanced-follow-up-report-technical-compl/1680792c61> Hungary 2<sup>nd</sup> Enhanced Follow-up Report, December 2018, <https://rm.coe.int/committee-of-experts-on-the-evaluation-of-anti-money-laundering-measur/1680932f59>.

3. Given the results of the MER, Hungary was placed in enhanced follow-up<sup>1</sup>. The first enhanced follow-up report submitted by Hungary was discussed at the 55<sup>th</sup> Plenary meeting in December 2017. The second enhanced follow-up report submitted by Hungary was discussed at the 57<sup>th</sup> Plenary meeting in December 2018. The Plenary invited Hungary to submit a third enhanced follow-up report for the 59<sup>th</sup> MONEYVAL Plenary in December 2019.

<sup>1</sup> Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up. This is intended to be a targeted but more comprehensive report on the countries/territories' progress, with the main focus being on areas in which there have been changes, high risk areas identified in the MER or subsequently and on the priority areas for action.

4. The assessment of Hungary request for technical compliance re-ratings and the preparation of this report were undertaken by the following Rapporteur teams (together with the MONEYVAL Secretariat):

- Armenia
- The United Kingdom Crown Dependency of Jersey

5. Section III of this report summarises Hungary's progress made in improving technical compliance. Section IV sets out the conclusion and a table showing which Recommendations have been re-rated.

### III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

6. This section summarises the progress made by Hungary to improve its technical compliance by:

- a) Addressing the technical compliance deficiencies identified in the MER, and
- b) Implementing new requirements where the FATF Recommendations have changed since the 2<sup>nd</sup> enhanced follow-up report was adopted (Recommendation 2).

#### 3.1. Progress to address technical compliance deficiencies identified in the MER

7. Hungary has made progress to address the technical compliance deficiencies identified in the MER. As a result of this progress, Hungary has been re-rated on Recommendation 33. The country asked for a number of re-ratings for other recommendations which are also analysed in the following.

##### *Recommendation 12 (Originally rated PC – no re-rating)*

8. In its 5<sup>th</sup> round MER, Hungary was rated PC for R.12 on account of a number of deficiencies, some of which have in the meantime been addressed as analysed in the country's first enhanced follow-up report. The remaining deficiencies related to the fact that the definition of PEP limits the function to a period of one year preceding the application of CDD; the lack of requirements related to "risk management systems", "sources of wealth" and "enhanced on-going monitoring"; and that the notion of "close associates" under the AML/CFT Act only includes business (i.e. not personal) relationships. Hungary reported that the AML/CFT Act is currently undergoing revisions in order to implement the 5<sup>th</sup> EU AMLD, in the course of which at least some the above deficiencies are intended to be addressed. **On that basis, R.12 remains PC.**

##### *Recommendation 13 (Originally rated PC – no re-rating)*

9. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.13. The general provisions with respect to correspondent banking were considered substantially in line with the standards, but they were not applied with respect to respondent institutions within the EU. In its 1<sup>st</sup> follow-up report, Hungary presented amendments to the AML/CFT Act which extend to respondent institutions within the EU. However, in line with the analysis already provided in the 1<sup>st</sup> follow-up report, financial institutions are required to apply these requirements only on a risk-sensitive basis, where they determine that the correspondent relationship poses a higher risk. **On that basis, R.13 remains PC.**

### *Recommendation 18 (Originally rated PC – no re-rating)*

10. In its 5<sup>th</sup> round MER Hungary was rated PC with R.18. In the analysis of the 1<sup>st</sup> follow-up report it was concluded that all sub-criteria under C.18.1 are met except for (b) as there are no requirements to have in place screening procedures when hiring employees and that 18.1 may be considered to be at a level of ‘mostly met’. C.18.2 is only ‘partly met’ since there are no requirements for group wide programmes which include the measures set out in C.18.1 and no measures implementing C.18.2(a) and (b). C.18.3 is met.

11. In light of its 3<sup>rd</sup> follow-up report, Hungary presented information on amendments to sectoral acts in order to deal with confidentiality concerns but have taken no action to introduce any requirement for group wide programmes which include the measures set out in c.18.1. The Hungarian authorities state that a review is underway which will result in legislative amendments necessary to comply with criteria 18.1 and 18.2.

12. While this is a positive step, it cannot be considered sufficient progress to justify a re-rating. **On that basis, R.18 remains PC.**

### *Recommendation 32 (Originally rated PC – no re-rating)*

13. In its 5<sup>th</sup> round MER Hungary was rated PC with R.32. The two main deficiencies related to: a) criterion 32.1: the country has not implemented any system requiring all physical movements of cash and BNI (covering all different modes of transportation) crossing the intra-Communitarian borders (within the EU) to be declared or disclosed; and b) criterion 32.8: the Customs authorities in Hungary do not have direct powers to stop or restrain currency or BNIs (other than retaining the amount of an administrative fine imposed if the latter is not paid instantly).

14. The Hungarian authorities submitted that steps are being taken to remedy the identified deficiency under criterion 32.1. However, these measures are still on-going and have not led to any practical steps or measures or to amendments to legislation. With regard to the deficiency identified under criterion 32.8 (no direct powers to stop or restrain currency or BNIs), the authorities have not submitted any legislative changes since the adoption of the MER. **On that basis, R.32 remains PC.**

### *Recommendation 33 (Originally rated PC –re-rated as LC)*

15. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.33. The deficiency under criterion 33.1 related to the fact that “significant shortcomings remain in relation to the collection and maintenance of relevant statistical information and data on matters relevant to the effectiveness and efficiency of its AML/CFT system”. Following amendments to the FATF Methodology in 2016, these deficiencies can in the meantime be considered as no longer relevant for the assessment of R.33, since the FATF has clarified that - for the purposes of technical compliance - only statistics for the four areas explicitly mentioned in R.33 should be taken into account.<sup>2</sup>

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<sup>2</sup> To clarify the implication of criterion 33.1 the FATF Secretariat prepared and tabled a document “HORIZONTAL & INTERPRETATION ISSUE: FATF METHODOLOGY FOR RECOMMENDATION 33 (CRITERION 33.1)” ([https://fact.fatf-gafi.org/document/FATF/ECG\(2016\)2/en/pdf](https://fact.fatf-gafi.org/document/FATF/ECG(2016)2/en/pdf)) for the discussion at the FATF plenary in February 2016. As a result of this discussion, it was agreed to add a footnote to clarify how criterion 33.1 should be assessed. The wording of the footnote is as follows: “For purposes of technical compliance, the assessment should be limited to the four areas listed below.”

16. As regards the maintenance of statistics, the Hungarian authorities informed that courts are required to collect information on ML/FT convictions, which are sent through the Ministry of Justice to the Hungarian Financial Intelligence Unit (HFIU). In addition, the Hungarian authorities maintain figures on ML/FT investigations and prosecutions, as well as statistics on property frozen, seized and confiscated. All statistics are maintained in a comprehensive manner.

17. The requirement for the maintenance of statistics in relation to MLA or other forms of international cooperation remains outstanding, which does however not prevent the overall conclusion that **R.33 is re-rated as LC**.

### 3.2. Progress on Recommendations which have changed since adoption of the MER

18. Since the adoption of Hungary's MER, the FATF has amended R.2, 18 and 21. This section considers Hungary's compliance with the new requirements and progress in addressing deficiencies identified in the MER in relation to these Recommendations, where applicable. Taking into account the progress demonstrated with respect to R.18 and 21, as already analysed in the 1<sup>st</sup> enhanced follow-up report, the current report only assesses the compliance with the revised and new elements of R.2.

#### *Recommendation 2 (originally rated LC – no re-rating)*

19. Based on the information provided, the Hungarian authorities have the necessary mechanism to exchange information domestically with each other concerning the development and implementation of AML/CFT policies and activities.

20. At the policy-making level: According to the Governmental Resolution 1409/2019 of July 2019, the Anti-Money Laundering Coordination Council was established as the main high-level policy-making body in the AML/CFT field. This Council will be chaired by the Ministry of Finance (MoF) and composed of all relevant competent authorities in the AML/CFT sphere. However, it is not clear yet whether this Council will discuss issues on possible ways of improving and enhancing the exchange of information between competent authorities.

21. In addition, the MoF has set up a coordination working group that will prepare implementation of the EU 5<sup>th</sup> AML/CFT Directive and the revision of the AML/CFT Act. This would allow the exchange of views among competent authorities on the implementation of the AML/CFT requirements.

22. Moreover, the Central Bank of Hungary (MNB), the MoF, the Hungarian Banking Association and the HFIU have organised roundtables to exchange experience and to discuss relevant issues deriving from the challenges of the new EU legal framework. Such roundtables were held in February, April and June 2019 respectively.

23. These above-mentioned formal and informal mechanisms demonstrate that Hungary is in line with the revised requirements of criterion 2.3.

24. At the operational level: Hungary has relevant formal operational working groups that allow the exchange of information amongst competent authorities to foster the development and implementation of AML/CFT activities.

25. In particular, the MNB and HFIU set up a joint working group to discuss current operational level issues. The aim of the working group is to exchange information on supervisory experience,

STRs, indications and initiations of the market participants, trends in the market (with special focus on typologies) and general questions. Furthermore, information is exchanged in the working group to agree on market directions and, if necessary, to discuss the possible modifications of the legislation or MNB recommendations. Consequently, this mechanism seeks to improve the effectiveness of the cooperation between the authorities as well as risk-based supervision.

26. Hungarian authorities cooperate and coordinate informally with each other to ensure the compatibility of AML/CFT requirements with Data Protection and Privacy Rules. Before the implementation of the EU General Data Protection Regulation (GDPR), inter-ministerial discussions took place with the participation of the Ministry of Justice and the Hungarian National Authority for Data Protection and Freedom of Information. Specific amendments have been introduced to the AML/CFT Act (e.g. on copying and using ID documents in the CDD process (2019 Act No.34, s.7)). In addition, the Hungarian National Authority for Data Protection and Freedom of Information monitors whether legal acts, proposals and practices comply with the data protection principles, especially as defined in the GDPR (2011 Act No.112). This covers AML/CFT legislation and also extends to any proposed amendments to legislation.

27. In light of the above, Hungary has made progress with the revised requirements of criterion 2.3 and criterion 2.5. However, few minor deficiencies identified in the 5<sup>th</sup> Round MER remain outstanding. **Therefore, Hungary remains LC with R.2.**

#### 4. CONCLUSION

28. Overall, Hungary has made some progress in addressing the technical compliance deficiencies identified in its 5<sup>th</sup> Round MER and has been re-rated on one Recommendation: Recommendation 33 (initially rated as PC) is re-rated as LC. Further steps have been taken to improve compliance with the other Recommendations, including those that have been revised since the adoption of the MER, but some gaps remain.

29. The Plenary notes that, three years after the adoption of the MER, Hungary remains partially compliant on 6 Recommendations. Therefore, the Plenary urges Hungary to address the outstanding deficiencies as soon as possible. In this respect, the Plenary recalls the expectation that countries will have addressed most, if not all, technical deficiencies by the end of the third year from the adoption of their MER.

30. Overall, in light of the progress made by Hungary since its 2<sup>nd</sup> enhanced FUR was adopted, its technical compliance with the FATF Recommendations has been re-rated as follows:

**Table 2. Technical compliance with re-ratings, December 2019**

<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>
LC	LC	LC	C	LC	LC	LC	PC	C	LC
<b>R 11</b>	<b>R 12</b>	<b>R 13</b>	<b>R 14</b>	<b>R 15</b>	<b>R 16</b>	<b>R 17</b>	<b>R 18</b>	<b>R 19</b>	<b>R 20</b>
LC	PC	PC	LC	C	LC	LC	PC	LC	C
<b>R 21</b>	<b>R 22</b>	<b>R 23</b>	<b>R 24</b>	<b>R 25</b>	<b>R 26</b>	<b>R 27</b>	<b>R 28</b>	<b>R 29</b>	<b>R 30</b>
LC	LC	LC	PC	LC	LC	LC	LC	C	C
<b>R 31</b>	<b>R 32</b>	<b>R 33</b>	<b>R 34</b>	<b>R 35</b>	<b>R 36</b>	<b>R 37</b>	<b>R 38</b>	<b>R 39</b>	<b>R 40</b>
LC	PC	<b>LC</b>	LC						

*Note:* There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

31. Hungary will remain in enhanced follow-up and will continue to report back to MONEYVAL on progress to strengthen its implementation of AML/CFT measures. Hungary is expected to submit its next enhanced follow-up report in one year's time.

## GLOSSARY OF ACRONYMS

AML	Anti-money laundering
BO	Beneficial ownership
CDD	Customer due diligence
CFT	Countering the financing of terrorism
DNFBP	Designated non-financial business and professions
FI	Financial institutions
FT	Financing of terrorism
HFIU	Hungarian Financial Intelligence Unit
LC	Largely compliant
ML	Money laundering
NGOs	Non-governmental organisations
NPOs	Non-profit organisations
NRA	National risk assessment
PC	Partially compliant
PF	Proliferation financing
R	Recommendation
STR	Suspicious transaction report
TFS	Targeted financial sanctions
UNSCR	United Nations Security Council Resolutions

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**December 2019**

## Anti-money laundering and counter-terrorist financing measures - **Hungary**

### **3<sup>rd</sup> Enhanced Follow-up Report**

This report analyses Hungary's progress in addressing the technical compliance deficiencies identified in the FSRB assessment of their measures to combat money laundering and terrorist financing of September 2016.

The report also looks at whether Hungary has implemented new measures to meet the requirements of FATF Recommendations that changed since the 2016 assessment.