



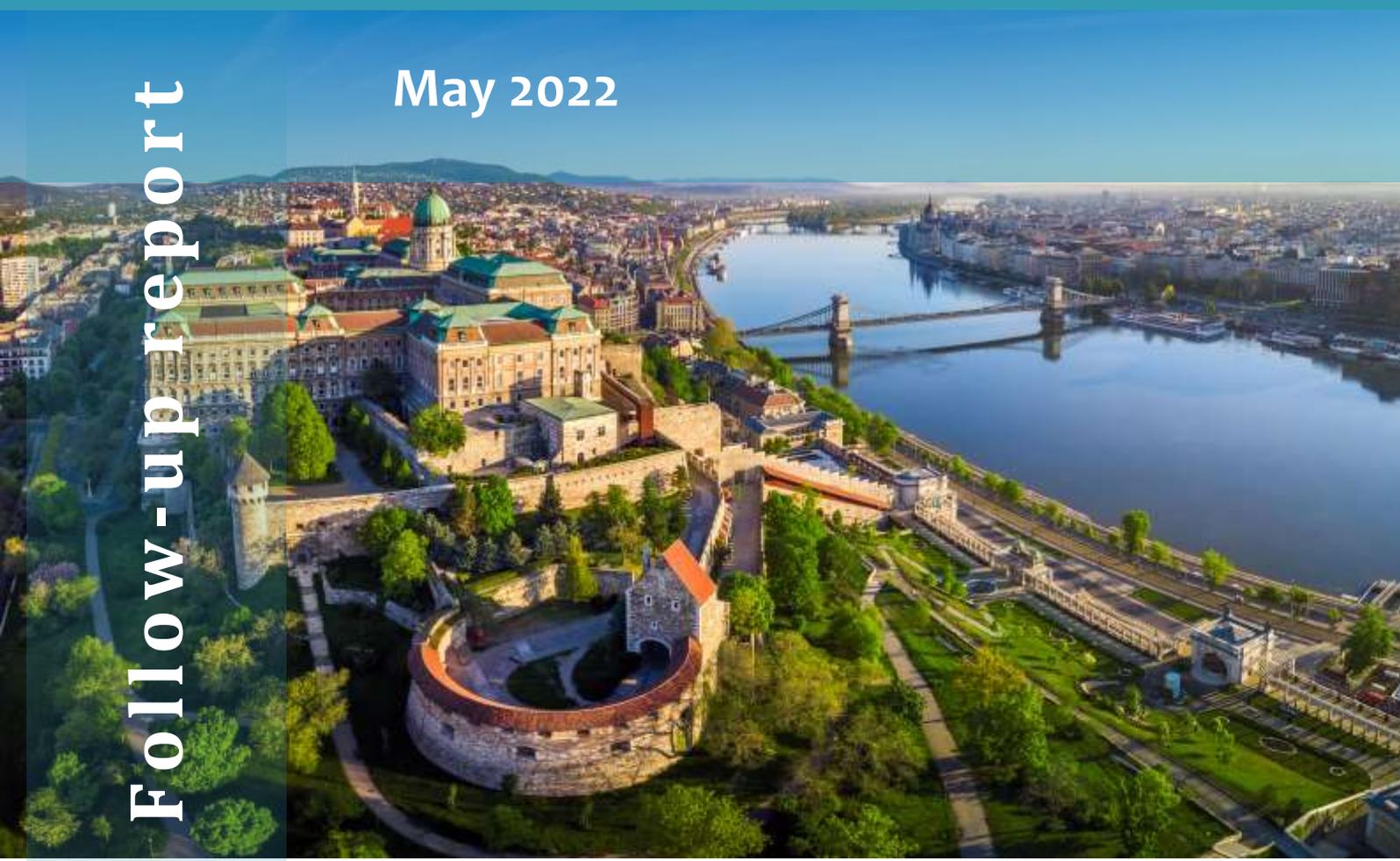
# Anti-money laundering and counter-terrorist financing measures

# Hungary

## 5<sup>th</sup> Enhanced Follow-up Report

May 2022

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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The 5th Enhanced Follow-up Report on Hungary was adopted by the MONEYVAL Committee at its 63rd Plenary Session (Strasbourg, 16-20 May 2022).

## *Hungary: Fifth Enhanced Follow-up Report*

### I. INTRODUCTION

1. The mutual evaluation report (MER) of Hungary was adopted in September 2016, its 1<sup>st</sup> Enhanced Follow-up Report (FUR) was in December 2017, the 2<sup>nd</sup> FUR was adopted in December 2018, the 3<sup>rd</sup> FUR was adopted in December 2019 and the 4<sup>th</sup> FUR was adopted in April 2021. The report analyses the progress of Hungary in addressing the technical compliance (TC) deficiencies identified in its MER. Re-ratings are given where sufficient progress has been made. Overall, the expectation is that countries will have addressed most if not all TC deficiencies by the end of the third year from the adoption of their MER.

### II. FINDINGS OF THE MUTUAL EVALUATION REPORT AND SUBSEQUENT FUR

2. The MER and subsequent Enhanced FURs rated Hungary as follows for technical compliance:

**Table 1. Technical compliance ratings, April 2021**

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

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

*Source:* Hungarian Mutual Evaluation Report, September 2016, <https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-hungary/16807161b4>. Hungary 1st Enhanced Follow-up Report, December 2017, <https://rm.coe.int/moneyval-2017-21-hungary-1st-enhanced-follow-up-report-technical-compl/1680792c61>. 2nd FUR, December 2018, <https://rm.coe.int/committee-of-experts-on-the-evaluation-of-anti-money-laundering-measures/1680932f59>. 3rd FUR, December 2019, <https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-hungary/1680998aaa>. 4th FUR, April 2021, <https://rm.coe.int/moneyval-2021-6-fur-hungary/1680a29ba4>.

3. Given the results of the MER, Hungary was placed in enhanced follow-up<sup>1</sup>. The first enhanced follow-up report of Hungary was discussed and adopted by MONEYVAL at its 55<sup>th</sup> Plenary meetings. The FUR acknowledged that overall Hungary had made very commendable progress during a very short time period in addressing the technical compliance deficiencies identified in its MER and was re-rated on 13 Recommendations (13 upgrades). In particular, Recommendations 1, 2, 6, 7, 10, 16, 19, 22, 23, 25, 34 and 35 were upgraded to LC and R.15 was upgraded to C.
4. The second FUR was discussed and adopted by MONEYVAL at its 57<sup>th</sup> Plenary meeting. The FUR assessed measures taken by Hungary that further remedied the deficiencies identified in the MER. In addition, Hungary was also assessed against revised Recommendations 7, 18 and 21.
5. The third FUR of Hungary was discussed and adopted at the MONEYVAL's 59<sup>th</sup> Plenary meeting. Hungary was only re-rated on R.33 as LC. The fourth FUR was considered by MONEYVAL at its

<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.

61<sup>st</sup> Plenary meeting. The FUR highlighted progress on R.12, which was upgraded to LC. However, due to insufficient compliance with the revised requirements of R.15, it was downgraded to PC. The country was invited to submit its fifth Enhanced FUR in one year's time.

6. The assessment of Hungary's 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
  - San Marino
7. Section III of this report summarises Hungary 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**

8. 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 subsequent enhanced FUR for which the authorities have requested a re-rating (R. 13, 18, 24 and 32).
9. For the rest of the Recommendations rated as PC (R.8 and 15) the authorities did not request a re-rating.
10. This report takes into consideration only relevant laws, regulations or other AML/CFT measures that are in force and effect at the time that Hungary submitted its country update report – at least six months before the FUR is due to be discussed by MONEYVAL<sup>2</sup>.

#### **III.1 Progress to address technical compliance deficiencies identified in the MER and applicable subsequent FURs**

11. Hungary has made progress to address the technical compliance deficiencies identified in the MER and subsequent Enhanced FURs. As a result of this progress, Hungary has been re-rated on Recommendations 13, 18 and 24. The country asked for a re-rating for R.32 which is also analysed but no re-rating has been provided.

#### ***Recommendation 13 (Originally rated PC – re-rated as LC)***

12. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.13. Following the adoption of the Hungarian 1<sup>st</sup> and 3<sup>rd</sup> Enhanced FURs the remaining deficiencies were: correspondent banking is substantially in line with the standards, but they do not apply to respondent institutions within the EU. While Hungary has introduced requirements which extend to respondent institutions within the EU, these relationships are only subject to enhanced CDD if determined by the service provider to pose a higher ML/FT risk (c.13.1, c.13.2).
13. Following the adoption of the 4<sup>th</sup> Enhanced FUR, to address the remaining deficiencies Hungary has undertaken a number of steps.

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<sup>2</sup> This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time that written comments are due. In other words, the legislation has been enacted, but it is awaiting the expiry of an implementation or transitional period before it is enforceable. In all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.

14. The current text of Section 24/A of the AML Act is the main provision of the law which transposes the content of R.13 into the domestic AML/CFT framework. This provision is also complemented by the MNE Decree n.21/2017 as amended by MNE Decree n. 13/2021, which is an enforceable mean envisaged by the above-mentioned Act and its Explanatory Part which is published in the Supplement of the Hungarian Official Journal.
15. In relation to the deficiency noted in the MER and the deficiency identified in the 1st follow up report (see column 3 of this document), it is worth noting that the current provision of subsection (5) of Section 24/A foresees that FIs – on a risk sensitivity approach – shall determine whether to apply those customer due diligence measures as specified in Subsections (1)-(3) prior to establishing a correspondent relationship with a FI established in a Member State of the European Union.
16. This provision has been complemented by section 1, letter o) of the by MNE Decree n.21/2017, as amended by MNE Decree n.13/2021 and its Explanatory Part related to section 1, II part, last paragraph. Based on that, FIs shall issue internal rules of procedures of special CDD measures, including those applicable on a risk sensitive basis, in relation to EU correspondent relationships.
17. In addition to that, the MNE Decree n.21/2017, as amended, foresees that “correspondent relationships activities” are included among “factors relating to higher risk” which form the basis for the application of ECDD (see Section 6 of that Decree).
18. Nonetheless, the legislative and regulatory provisions governing such topic require that FIs – on a risk sensitivity approach – shall determine whether apply those customer due diligence measures as specified in Subsections (1)-(3) prior to establishing a correspondent relationship with a FI established in a Member State of the European Union. This is not fully in line with R.13.
19. Overall, Hungary has taken steps to largely address the remaining deficiency under R.13 by introducing additional clarification on application of correspondent relationship requirements. Moreover, Hungary has provided additional information on the materiality of correspondent relationships. There are only 7% of all EU institutions, which are not affected by EDD measures, but they do not pose a significant risk as in such scenario mitigating measures are applied based on risk sensitive basis. **Therefore, R.13 is upgraded to LC.**

#### **Recommendation 18 (Originally rated PC – re-rated as LC)**

20. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.18. Following the adoption of the Hungarian subsequent Enhanced FURs the remaining deficiencies are: no requirements to have in place screening procedures when hiring employees (c.18.1(b)), apart from appointing a compliance officer other elements of c.18.1 are not covered (c.18.2), no reference in the Law to the ML/TF risk management at a group level (c.18.2(a)), the formulation of language in section 60 of the Act is general in terms of c.18.2(b) and the deficiency is only partly addressed (c.18.2(b)).
21. To address the remaining deficiency identified in the MER and subsequent FURs, Hungary has introduced new requirements for obliged entities.
22. The MNE Decree n. 21/2017 as amended by MNE Decree n. 13/2021 – under section 1, letter j) - requires FIs to adopt internal rules which shall contain regulations relating to ensuring appropriate professional skills when hiring executive officers and employees involved in the activities falling under the scope of the AML Act and the training of employees getting in contact with the customers as well as their participation in training programmes for AML/CFT. However, the requirements foreseen by the MNE Decree apply only to the executive officers and employees “dealing with AML/CFT matters” while the c. 18.1.b is broader and it is addressed to all FIs’ staff (c.18.1(b)).

23. As for financial groups, in relation to sub-criterion 18.1(a) on the establishment of compliance management arrangements at group level, this is set forth by section 60 (1) and 60 (2) of the AML Act. Thus, this sub-criterion is met. In relation to sub-criterion 18.1(b) on screening procedures to ensure high standard when hiring employees, this requirement is transposed in the MNE Decree 21/2017, as amended by MNE Decree 13/2021 which foresees for such requirements for each FI as well as for “financial group” as set forth under section 1/A of that Decree. However, the concern expressed under criterion 18.1, letter b) apply to this sub-criterion as well.
24. In relation to sub-criterion 18.1(c) on ongoing employee training programme, this is set under MNE Decree n.21/2017 as amended by MNE Decree n. 13/2021, – under section 1, letter j) - which requires FIs to adopt internal rules that shall contain regulations relating the training of employees getting in contact with the customers as well as their participation in training programmes for AML/CFT. Such provision is extended to “financial group” based on Section 1/A of that Decree. However, these training requirements only apply to employees involved in the AML/CFT activities.
25. In relation to sub-criterion 18.1.d on independent audit function to test the system, the MNE Decree n.21/2017 as amended by MNE Decree n. 13/2021, – under section 1, letter r) - states and requires that the functions of external control function are used for controlling (i.e., testing) of the compliance and operation of the internal rules of procedures. Such provision is extended to “financial group” based on Section 1/A of that Decree.
26. To conclude, the measures set for under c.18.1 in relation to “financial groups” (i.e., criterion 18.2.) are in place to a large extent (c.18.2).
27. According to sub-criterion 18.2(a) “financial group” should establish policies and procedures for sharing of information for CDD purpose and for ML/TF risk management according to sections 60 (1) and 60(2) of the AML Act (c.18.2(a)).
28. According to section 60 (1) of the AML Act, FIs (i.e., “service providers”) shall apply group-level policies and procedures which shall include the intra-group sharing of data and information for purposes among which preventing and combating ML/TF. Section 60(2), letter a) and letter b) of the AML Act, specifies that FIs shall adopt group-level policies and procedures which include the “intra-group” sharing of information and data in relation to “customer identification measures” and STRs information. This requirement is further detailed under Section 1, letter b) of the MNE Decree 21/2017 as amended: the set of information and data related to CDD process is specified as well as it is specified the information on transactions and on accounts (as required under c.18.2(b)) where reference is made to "transactions performed" including "enhanced monitoring" and "analysis of the complex and unusual transactions and financial operations". This information is considered mandatory substantive elements that shall be contained in the internal rules of each FIs.
29. This information and data shall also be used in the context of intra-group distribution of information as set forth under Section 1/A of the MNE Decree 21/2017 as amended, where reference to letter b) of the Section 1 is done. It is neither explicitly stated in the legislation nor in the MNE Decree that the information and data shall also be received by branches and subsidiaries when relevant and appropriate to risk management (although this is not excluded in the legislation) (c.18.2(b)).
30. Overall, since the adoption of the 5<sup>th</sup> round MER Hungary took a number of steps to remedy the identified deficiencies and due to this progress requested a re-rating for R.18. Following the discussion and adoption of the 1<sup>st</sup> Enhanced FUR, it was concluded that “*all sub-criteria under*

*c.18.1 are now met except for (b). This criterion 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". R.18 remained PC.*

31. In the 2<sup>nd</sup> Enhanced FUR, Hungary was assessed against the revised requirements of R.18. It was concluded that Hungary does not meet the new requirements of R.18 and the remaining deficiencies following the adoption of the 1<sup>st</sup> Enhanced FUR were not addressed. The 3<sup>rd</sup> Enhanced FUR concluded that despite of positive steps taken by Hungary (the deficiency under c.18.2(c) was addressed), still conclusions made in the 1<sup>st</sup> and 2<sup>nd</sup> Enhanced FURs are valid. No deficiencies have been addressed in the context of the 4<sup>th</sup> Enhanced FUR.
32. Due to important steps by Hungary to remedy the identified deficiencies under R.18, the country had requested an upgrade this recommendation. In particular, Hungary has introduced screening procedures for hiring employees, however these requirements only apply to executive officers and employees "dealing with AML/CFT matters" (c.18.1(b)). This limitation also negatively impacts the implementation of c.18.1(b and c) in the context of c.18.2. In relation to c.18.2(a) Hungary has addressed the relevant deficiency. The deficiency under c.18.2(b) has been largely addressed. In the view of rapporteurs, the remaining deficiencies are of minor nature, **therefore R.18 is upgraded to LC.**

#### **Recommendation 24 (Originally rated PC – re-rated as LC)**

33. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.24. Following the adoption of the Hungarian 1<sup>st</sup> Enhanced FUR the remaining deficiencies are: Hungary has not specifically assessed the risk associated with different categories of legal persons that can be created under Hungarian law, conducted assessment of ML/TF risks does not cover all types of the legal persons created in Hungary (c.24.2); basic information concerning all types of legal persons to be kept with the companies register does not include the list of directors (c.24.3); no explicit legal provisions on ensuring that information maintained by the Court of Register is accurate, not in all instances companies are required to notify the Register of changes of data (particularly as regards changes of ownership) and it is not clear if information is updated on a timely basis (c.24.4, c.24.5); no requirement for the companies to obtain and hold up-to-date information on the companies' beneficial ownership in the country, in case the legal entity is a client of the service provider, there are certain requirements set out in the AML/CFT Law to ensure that up-to date records are provided by the legal entity (c.24.6(a)); beneficial ownership information is not required to be as accurate as possible, the definition of the beneficial owner as provided under the AML/CFT Act is not fully in line with the FATF standards, Section 9 of the amended AML/CFT Act stipulates that the representative of a customer (legal person or organisation without legal personality) shall – based on the accurate and up-to-date records kept by the customer – make a declaration regarding the beneficial owners, however, this provision does not cover adequately the requirement for the companies to obtain and hold up-to-date information on the companies' beneficial ownership (c.24.7); there is no specific obligation for companies to cooperate with the competent authorities in determining the beneficial owner (c.24.8); it is unclear whether the fact that a shareholder is a nominee of the principal is subject to registration in the company's register or elsewhere in all instances, given that there is no prohibition to provide nominee director services it is important to set up relevant mechanisms to ensure that they are not misused (c.24.12); no information on the monitoring the quality of assistance the country receives from other countries on beneficial ownership or locating beneficial owners residing abroad was provided by the authorities, apart from the Egmont Biennial Census Mechanism

there is no other mechanism for any formal assessment of the quality of assistance the Hungarian authorities receive from other countries (c.24.15).

34. To address these deficiencies Hungary has taken necessary measures.
35. Hungary has adopted amendments to the Act on Public Company Information. Section 24(a) of this Act requires companies to disclose all directors in the Companies Register (c.24.3).
36. According to Section 50(5) of the CRA companies are required to submit an application for registration of data change within thirty days from the date of occurrence of the change of data (c.24.4, c.24.5).
37. According to Section 5 of the AFAD Act all legal persons as listed in sub-section 1 of Section 1 are required to obtain and keep up-to-date information on the beneficial ownership (c.24.6(a)).
38. The revised definition of beneficial owner complies with the FATF definition of beneficial owner. In relation to the beneficial ownership information, legal entities that collect this information pursuant to Section 5 of the AFAD Act are required to keep this information up-to-date. In addition, according to Section 6 of the AFAD Act legal entities should ensure that in case of any change in the BO information, a beneficial owner shall notify them within fifteen days of the changed data. Moreover, the new requirements of the AFAD Act complement the provisions of Section 12 of the AML/CFT Act. Under this Section, service providers are also obliged to ensure that their clients' BO data be accurate and up-to-date, and they are obliged to check the BO data made available to them. In the view of rapporteurs Hungary applies a combination of measures which allows covering these deficiencies (c.24.7).
39. According to Section 8(1) of the AFAD Act the authority, the public prosecutor's office, the court and the supervisory body may access all data stored in the beneficial ownership registry (c.24.8).
40. In relation to c.24.2, c.24.12 and c.24.15 no measures have been taken.
41. Overall, Since the adoption of the 5<sup>th</sup> round MER, Hungary has taken significant measures to remedy the identified deficiencies. In the 1<sup>st</sup> Enhanced FUR it was acknowledged that Hungary partially addressed deficiencies under c.24.6(a) and c.24.7. Hungary has not requested any upgrade for R.24 in the 2<sup>nd</sup>, 3<sup>rd</sup> nor 4<sup>th</sup> FURs.
42. In the context of the 5<sup>th</sup> Enhanced FUR due to progress on R.24, Hungary has requested an upgrade. In particular Hungary has addressed deficiencies under c.24.3, c.24.4, c.24.5, c.24.6(a), c.24.7 and c.24.8. In relation to c.24.2, even though Hungary has conducted a risk assessment of legal persons, this assessment does not cover all types of legal persons. Deficiencies under c.24.12 and c.24.15 have not been addressed. **Therefore, R.24 is upgraded to LC.**

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

43. In its 5<sup>th</sup> round MER, Hungary was rated PC with R.32. Following the adoption of the Hungarian 3<sup>rd</sup> Enhanced FUR the remaining deficiencies were: Hungary 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 (c.32.1); The Customs authorities in Hungary do not have direct powers to stop or restrain currency or BNIs (c.32.8).
44. The new "Cash Control Act" provides the Hungarian customs authorities with direct powers to stop or restrain currency or BNIs hence, for 30 days for the purpose of the assessment of the origin of cash. This period may be extended for a period not exceeding 90 days. However, this

legal provision is not fully in line with the Standards, as c.32.8 does not establish any threshold (c.32.8).

45. No new measures have been taken in relation to deficiencies under c.32.1.
46. Overall, Hungary has not taken any measures to address the deficiency under c.32.1. In relation to c.32.8 the country has taken step to largely address the deficiency. **Therefore, R.32 remains PC.**

#### IV. CONCLUSION

47. Overall, Hungary has made progress in addressing the TC deficiencies identified in its 5<sup>th</sup> Round MER and subsequent enhanced FURs and has been re-rated on three Recommendations (3 upgrades). Recommendations 13, 18 and 24 initially rated as PC are re-rated as LC.
48. Hungary is encouraged to continue its efforts to address the remaining deficiencies.
49. Overall, in light of the progress made by Hungary since its MER and the 4<sup>th</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, May 2022**

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

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

50. According to item 8 of Rule 21 of the MONEYVAL's Rules of Procedure for the 5<sup>th</sup> round Mutual Evaluations the general expectation is for countries to address most if not all of the technical compliance deficiencies by the end of the 3<sup>rd</sup> year after the adoption of the MER.
51. Hungary's 5<sup>th</sup> round MER was adopted in September 2016. In line with item 8 of Rule 21 it was expected that Hungary addresses most if not all of its technical compliance deficiencies by April 2021. Nevertheless, despite of significant progress achieved by the country in addressing the technical compliance deficiencies, still R.8, 15 and 32 are rated PC.
52. Considering the above-stated and in line with Footnote 27 to item 8 of Rule 21, which states that *"It is up to the Plenary to determine the extent to which its members are subject to this general expectation, depending on the member's context"*, the Plenary held a discuss on further monitoring steps that shall be taken in relation to Hungary.
53. The Plenary concluded that Hungary has addressed most of the technical compliance deficiencies after the adoption of its MER and agreed to apply increased follow-up reporting intervals.
54. 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 report back in two years' 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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May 2022

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

**5<sup>th</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.