

Anti-money laundering and counter-terrorist financing measures

Hungary

6th Enhanced Follow-up Report & Technical Compliance Re-Rating

May 2024

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 6th Enhanced Follow-up Report and Technical Compliance Re-Rating on Hungary was adopted by the MONEYVAL Committee at its 67th Plenary Meeting (Strasbourg, 22 May 2024).

Hungary: Sixth Enhanced Follow-up Report

I. INTRODUCTION

1. The mutual evaluation report (MER) of Hungary was adopted in September 2016. Given the results of the MER, Hungary was placed in enhanced follow-up.¹ Its 1st Enhanced Follow-up Report (FUR)² was in December 2017, the 2nd FUR³ was adopted in December 2018, the 3rd FUR⁴ was adopted in December 2019, the 4th FUR⁵ was adopted in April 2021 and the 5th FUR⁶ was adopted in May 2022. The report analyses the progress of Hungary in addressing the technical compliance (TC) deficiencies identified in its MER or subsequent FURs. 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.
2. The assessment of Hungary's request for technical compliance re-ratings and the preparation of this report were undertaken by the United Kingdom (together with the MONEYVAL Secretariat).
3. Section II of this report summarises Hungary's progress made to improving technical compliance. Section III sets out the conclusion and a table showing which Recommendations have been re-rated.

II. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

4. This section summarises the progress made by Hungary to improve its technical compliance by addressing the technical compliance deficiencies identified in the MER and applicable subsequent FURs for which the authorities have requested a re-rating (Recommendation (R).8 and 15).
5. For the rest of the Recommendations rated as partially compliant (PC) (R.32) the authorities did not request a re-rating.
6. This report takes into consideration only relevant laws, regulations or other anti-money laundering and counter terrorism financing (AML/CFT) measures that are in force and effect at the time that submitted its country reporting template – at least six months before the FUR is due to be considered by MONEYVAL.⁷

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

7. Hungary has made some progress to address the technical compliance deficiencies identified in the MER and applicable subsequent FURs. As a result of this progress, for Recommendation 15, which has been analysed in this FUR, Hungary has been re-rated from PC to largely compliant (LC). Recommendation 8 remains rated PC.
8. Annex A provides the description of country's compliance with each Recommendation that is reassessed, set out by criterion, with all criteria covered. Annex B provides the consolidated list of remaining deficiencies of the re-assessed Recommendations.

1. Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up.

2. First Enhanced Follow-up Report, available at <https://rm.coe.int/moneyval-2017-21-hungary-1st-enhanced-follow-up-report-technical-compl/1680792c61>.

3. Second Enhanced Follow-up Report, available at <https://rm.coe.int/committee-of-experts-on-the-evaluation-of-anti-money-laundering-measur/1680932f59>.

4. Third Enhanced Follow-up Report, available at <https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-hungary/1680998aaa>.

5. Fourth Enhanced Follow-up Report, available at <https://rm.coe.int/moneyval-2021-6-fur-hungary/1680a29ba4>.

6. Fifth Enhanced Follow-up Report, available at <https://rm.coe.int/fur-hungary-5th/1680a6cfe7>.

7. 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.

III. CONCLUSION

9. Overall, in light of the progress made by Hungary since its MER was adopted, its technical compliance with the Financial Action Task Force (FATF) Recommendations has been re-rated as follows:

Table 1. Technical compliance with re-ratings, May 2024⁸

R.1 LC (FUR1 2017) PC	R.2 LC (FUR3 2019) LC (FUR12017) PC	R.3 LC	R.4 C	R.5 LC (FUR2 2018) PC (FUR1 2017) PC
R.6 LC (FUR1 2017) PC	R.7 LC (FUR2 2018) LC (FUR1 2017) PC	R.8 PC (FUR6 2024) PC (FUR1 2017) PC	R.9 C	R.10 LC (FUR1 2017) PC
R.11 LC	R.12 LC (FUR4 2021) PC (FUR3 2019) PC (FUR1 2017) PC	R.13 LC (FUR5 2022) PC (FUR3 2019) PC (FUR1 2017) PC	R.14 LC	R.15* LC (FUR6 2024) PC (FUR4 2021) C (FUR1 2017) PC
R.16 LC (FUR1 2017) PC	R.17 LC	R.18 LC (FUR5 2022) PC (FUR4 2021) PC (FUR3 2019) PC (FUR2 2018) PC (FUR1 2017) PC	R.19 LC (FUR1 2017) PC	R.20 C
R.21 LC	R.22 LC (FUR1 2017) PC	R.23 LC (FUR1 2017) PC	R.24 LC (FUR5 2022) PC (FUR1 2017) PC	R.25 LC (FUR1 2017) PC
R.26 LC	R.27 LC	R.28 LC (FUR2 2018) PC (FUR1 2017) PC	R.29 C	R.30 C
R.31 LC	R.32 PC (FUR5 2022) PC (FUR3 2019) PC	R.33 (LC) (FUR3 2019) PC (FUR2 2018) PC	R.34 LC (FUR1 2017) PC	R.35 LC (FUR1 2017) PC
R.36 LC	R.37 LC	R.38 LC	R.39 LC	R.40 LC

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

10. To date, Hungary has achieved an LC/C rating in respect of 38 recommendations and 2 recommendations (R.8 and R.32) remain rated as PC. In application of MONEYVAL's Rules of procedure, Hungary has reached the required threshold⁹ and has addressed most, if not all technical deficiencies.

11. The MONEYVAL onsite visit to Hungary for the 6th round mutual evaluation will take place in October 2026. Taking this into account and in line with Rule 23 of MONEYVAL's Rules of Procedure, Hungary will no longer be subject to the fifth-round follow-up process.

8. Recommendations with an asterisk are those where the country has been assessed against the new requirements following the adoption of its MER or FUR.

9. A jurisdiction in enhanced follow-up meets the threshold of the general expectation to have addressed most if not all technical deficiencies if thirty-six or more out of the forty FATF Recommendations are rated at the LC/C level, depending on the context of the jurisdiction.

Annex A: Reassessed Recommendations

Recommendation 8 – Non-profit Organisation (NPO)

	Year	Rating
MER	2016	PC
FUR1	2017	PC (new requirement)
FUR2	2018	PC (no re-rating requested)
FUR3	2019	PC (no re-rating requested)
FUR4	2021	PC (no re-rating requested)
FUR5	2022	PC (no re-rating requested)
FUR6	2024	PC (upgrade requested, maintained at PC)

1. In its 5th round MER, it was rated as PC against R.8 and deficiencies identified included a lack of formal review of the NPO sector to assess the potential vulnerability of the sector to terrorism financing, and outreach activities concerning terrorist financing (TF) issues. With revisions to Recommendation 8 in 2016, Hungary's compliance with R.8 was reassessed under its first enhanced FUR. Hungary retained a rating of PC, and the report identified some of the following deficiencies: a risk assessment not identifying organisations that meet the FATF's definition of NPOs, as well as shortcomings related to outreach and the application of risk-based measures.

2. **Criterion 8.1 –**

- (a) Hungary recently conducted a risk assessment of NPOs as part of its 2022 National Risk Assessment (NRA). Authorities claim that they have identified some organisations that would fall within the FATF definition of NPO and stated that they could not identify the risk of TF abuse related to these. However, this has not been sufficiently substantiated. The features and types of NPOs likely to be at risk of TF abuse have not been identified.
- (b) The NRA reaches some high-level conclusions on the nature of threats posed by terrorist entities to NPOs and how terrorist actors abuse those NPOs. However, the TF risk assessment does not include a sufficiently granular identification of the nature of TF threats to NPOs. Adequate qualitative and quantitative analysis of threats is missing.
- (c) Hungary has undertaken a review of the NPO sector. However, this review is based on a limited understanding of the nature of TF threats to NPOs. Hungary has not demonstrated that it has thoroughly reviewed the adequacy of NPO related laws and regulations to ensure proportionate and effective actions to address the risks identified.
- (d) In accordance with Hungary's domestic methodology, an NRA review has to be carried out every three years. The gap between reassessments of the NPO sector could be the same as the gap between NRAs as a whole. However, authorities did not demonstrate that they periodically reassess new information on the NPO sector's potential vulnerabilities to TF and there are no specific requirements to do so.

3. **Criterion 8.2 –**

- (a) Hungary has taken steps to increase accountability of the NPOs revising financial reporting obligation of NPOs (Gov. Resolution 479/2016), which prescribes special accounting rules and obligations for NPOs. However, Hungary has not sufficiently demonstrated that it has specific policies to promote accountability, integrity, and public confidence in the administration and management of NPOs beyond the financial reporting obligations of NPOs.
- (b) Hungary has provided general guidance for NPOs and their leadership, including through its Civil Information Portal, Civil Handbook and Smart Booklets. It has also provided outreach and educational programmes through its Civil Organization Leadership Training and Civil Community Service Centres. However, Hungary has not demonstrated that this outreach and educational programming specifically covers CTF-related issues. Hungary has undertaken some outreach, such as the Ministry of

Economic Development presenting on CTF at the annual meetings of civil society organisations, but further outreach and educational programming is needed to raise and deepen awareness among NPOs as well as the donor community about the potential vulnerabilities of NPOs to TF abuse and TF risks, and the measures that NPOs can take to protect themselves against such abuse.

(c) Hungary has provided limited evidence that it has worked with NPOs to develop and refine best practices to address terrorist financing risk and vulnerabilities and thus protect them from terrorist financing abuse. The Ministry for National Economy has met with the European Centre for Not-for-Profit Law to discuss AML/CTF and the outcome of the NRA. It has also attended the annual meeting of civil society organisations. However, information provided does not demonstrate how these meetings have supported the development and refinement of best practices to address TF risk and vulnerabilities of NPOs.

(d) Hungary has not demonstrated that it encourages NPOs to conduct transactions via regulated financial channels, wherever feasible.

4. **Criterion 8.3** – In their FUR submission, the country noted that supervision system demonstrated during the MER process is still in place and has not changed since adaptation of the MER of Hungary. The country has provided no new evidence on how it applies risk-based measures to NPOs at risk of TF abuse. Therefore, there remain shortcomings related to the application of targeted risk-based measures.

5. **Criterion 8.4** –

(a) Hungary has not demonstrated that it has a holistic system for monitoring NPOs, except for prosecutorial oversight in case of alleged violations of NPOs' requirements (legality check). NPOs are required to submit mandatory yearly financial reports to a digital platform (IFORM) and under current legislation all NPOs with an annual balance sheet of over HUF 5 million are required to submit their reports electronically. Under Act XLIX of 2021, the Court of Auditors prepares an annual summary report on the NPOs with an annual balance sheet of over HUF 20 million. However, it is unclear whether these reports are monitored for CTF purposes.

In June 2017, the "Law on the Transparency of Organisations Receiving Support from Abroad" entered into force, which requires organisations receiving at least HUF 7.2 million (approximately EUR 24,000) from foreign sources to register as organisations "receiving support from abroad" and provides for the possible dissolution of an organisation as a penalty for non-compliance. The law, which refers in its preamble to both transparency and the fight against ML/FT, was not based on any risks identified in the 2017 NRA.

(b) As explained in the 5th round MER, there is an array of sanctions for violating the various requirements to which NPOs are subject, including cancellation of the tax number and winding up of the NPOs. However, sanctions for senior officers of NPOs are primarily tax violations-related, and do not appear to be dissuasive or proportionate – given the various types of violations that could be envisaged.

See criterion 8.4(a) above on the sanctions associated with the "Law on the Transparency of Organisations Receiving Support from Abroad". These sanctions were not based on any risks identified in the 2017 NRA.

6. **Criterion 8.5** –

(a) the Hungarian Financial Intelligence Unit (FIU) effectively co-operates, co-ordinates, and shares information with domestic competent authorities. It co-ordinates with the Hungarian Counter Terrorism Centre (TEK) and National Bureau of Investigation on NPO-related TF cases to update strategic information on TF trends.

- (b) A special unit in the Hungarian TEK is responsible for the detection of TF. Further information is needed to demonstrate that this unit has the investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations.
- (c) Hungary has not provided information to demonstrate that full access to information on the administration and management of particular NPOs (including financial and programmatic information) may be obtained during the course of an investigation.
- (d) Hungarian FIU maintains an effective IT system (PEKIR), introduced in 2021, to prioritise incoming cases and ensure that information is promptly shared with competent authorities. Cases relating to TF, including those involving NPOs, are automatically deemed high priority and assigned to an analyst. The results of analysis are shared with competent domestic authorities in accordance with Section 48 Subsection (1)-(2) of the Hungarian AML/CFT Act.

7. **Criterion 8.6** – Hungary uses the general procedures and mechanisms for international co-operation to handle requests relating to NPOs. This includes procedures for the Hungarian FIU (HFIU) to respond to international requests for information regarding NPOs suspected of terrorist financing or involvement in other forms of terrorist support. Information exchange with foreign FIUs is governed by Sections 49-53 of the Hungarian AML/CFT Act.

Weighting and Conclusion

8. Hungary has recently conducted a risk assessment of NPOs as part of its 2022 NRA, but has not identified those organisations that meet the FATF's definition of NPO. Measures taken after the adoption of the MER are not based on the identification and analysis of TF risks. There are shortcomings related to the need for further outreach and encouragement of the use of regular financial channels, to the application of targeted risk-based measures, and to sanctions in place for senior officers of NGOs. **R.8 remains partially compliant.**

Recommendation 15 – New Technologies

	Year	Rating
MER	2016	PC
FUR1	2017	C (upgraded)
FUR2	2018	C (no re-rating requested)
FUR3	2019	C (no re-rating requested)
FUR4	2021	PC (new requirement)
FUR5	2022	PC (no re-rating requested)
FUR6	2024	↑ LC (upgrade requested)

1. In the 5th round MER, Hungary was rated Partially Compliant with the equivalent Recommendation. The main technical deficiencies were: the lack of requirement for financial institutions to identify and assess the ML/FT risks that may arise in relation to the development and new business practices; the use of new or developing technologies while there is a lack of enforceable legal provisions requiring financial institutions to undertake the risk assessment prior to the launch or use of such products, practices and technologies and to take appropriate measures to manage and mitigate the risks. In its first FUR, these deficiencies had been addressed and Hungary was re-rated. Since then, Hungary was reassessed again given revisions to R.15, and given a PC rating against the recommendations revised requirements.

2. **Criterion 15.1** – The Hungarian authorities have prepared the country risk assessment, taking into account the risks emanating also from new business practices and products and the use of new technologies. Financial institutions are required to conduct an internal risk assessment – proportionate to the nature and size of the service provider – based on the nature and amount of the business relationship or transaction order and the circumstances of the customer, the product, the service and the equipment used.

3. **Criterion 15.2** – The “Central Bank of Hungary (MNB) Recommendation on the Establishment and Operation of Internal Protection Lines and on the Management and Control Functions of Financial Institutions” recommends in its “Point 90” a risk control prior to the introduction of new products and services, as well as in “Point 99” a risk analysis of new products and processes. Financial institutions are required to maintain internal compliance procedures, known as the internal rules (Section 65(1) AML/CFT Act), which should include a list of cases giving rise to the application of enhanced CDD and the measures to be applied in relation thereto (Section 1(d) of the Decree on the compulsory elements of the internal rules). The cases and the measures to be applied shall be based on the factors related to higher risk listed in Annex 2 of the Decree (Section 6 of the Decree). Point 2.5 in Annex 2 refers to new products and new business practices, including (but not limited to) the use of new delivery mechanisms or new or developing technologies either for new or previously existing products. Taken together these provisions require financial institutions to consider the risks posed by all such products, practices and technologies before they are launched or used and apply enhanced due diligence measures to mitigate the risks. In addition, pursuant to Section 10(2)(c) of the MNB Decree, the establishment of a business relationship or the execution of a transaction involving such products, practices and technologies requires prior management approval.

4. **Criterion 15.3** –

- (a) In the scope of the 2017 NRA the country has reviewed the ML/TF risks associated with the use of virtual currencies. The assessment did not cover identification and assessment of ML/TF risks emerging from the activities and operations of Virtual Asset Service Providers (VASPs). Nonetheless, in 2020 the HFIU conducted Strategic analysis aiming at: (a) identifying VASPs operating in Hungary which do not comply with the requirements of the AML/CFT Act; (b) understanding VASPs activities in Hungary; and (c) receiving insight from its foreign counterparts so as to improve its inspection methodology. Since

this point, novel techniques have been introduced for identifying service provided. The country has updated its NRA, scoping in covered VASPs. The country has also conducted a Sector Risk Assessment (covering inherent risks, regulatory deficiencies and vulnerabilities), sent questionnaires to covered VASPs to gather data from them directly and developed an application for supervisors which identifies potential VASPs and improves understanding of their inherent risk. Ongoing data analysis is conducted using information sourced from two channels: the application running on the Tax Authority database and the annual questionnaires. This analytical process forms the foundation for a holistic risk-based approach. However, the definition of virtual asset service provider does not cover the provision of financial services relating to VASP transactions (more detail on this in 15.4), so the full sector is not covered.

- (b) The NRA and sectoral risk assessment have been completed, which include an assessment of VASPs. The HFIU has also provided information to evidence the framework around its risk-based approach, as per its supervisory strategy, as well as risk identification activity in the form of a questionnaire to all known VASPs in the country. In addition, the HFIU consistently monitors the tax authority database to detect new VASPs and acknowledge additional cryptocurrency activities, collects relevant information to inform its understanding of risk via a questionnaire and has a created risk matrix which scores firms based on relevant facts, such as customer due diligence capabilities and the presence of an internal risk assessment. Based on the risk rating, the HFIU applies a risk-based approach to determine the supervisory tools used.
- (c) Section 27 of the AML/CFT Act requires service providers to assess, manage and mitigate their ML/TF risks.

5. **Criterion 15.4 –**

- (a) (i) and (ii) VASPs are defined under the AML/CFT Act (section 1 (n)) as service providers engaged in exchange services between virtual currencies and legal tenders, or virtual currencies. Section 3 (22(a)) defines custodian wallet provider as an entity that provides services to safeguard private cryptographic keys on behalf of its customers, to hold, store and transfer virtual currencies (covered VASPs). However, the definition of the VASPs provided under the AML/CFT law does not cover all the activities described in the glossary of the FATF Methodology and does not extend to the following activities: participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset. However, all other covered VASPs are subject to the requirements of the AML/CFT law. For these entities, Hungary has amended the AML/CFT Act to require registration to cover all exchange services (between virtual and fiat currencies and between virtual currencies) and custodian wallet service providers. The AML/CFT Act requirements essentially cover all types of service providers (either legal or natural persons) (section 1(1)) and requires all service providers (including VASPs) to have at least one designated person in charge of liaising with to the HFIU (section 31).
- (b) The AML/CFT Act (Section 76/G) prevents natural and legal persons who have convicted a range of criminal offences from engaging in exchange services between virtual and fiat currencies, between virtual currencies and being a custodian wallet service provider. The recent provisions in the AML/CFT Act (Section 76/1 (3)) require supervisory bodies to request criminal records of the owner, the beneficial owner and the manager. According to the AML/CFT Act, only individuals who possess a recently issued clean criminal record certificated (issued within thirty days) are eligible to hold any position within the VASP, including beneficial owners. Evidence provided by Hungary did not demonstrate that these measures extend to criminal associates.

6. **Criterion 15.5 –** Hungary has demonstrated that it has taken actions to identify natural or legal persons that carry out VASP activities and do not comply with the requirements of the AML/CFT Act. The Act (section 69) enables the Hungarian authorities to apply appropriate sanctions to covered VASPs which did not designate a person with the HFIU.

7. **Criterion 15.6 –**

- (a) According to the AML/CFT Act covered VASPs are supervised by the Hungarian Financial Intelligence Unit (HFIU). Criterion 28.5, under which the supervision conducted by the HFIU is considered, has been re-rated as met under the analysis of the 2nd FUR of Hungary.
- (b) Based on Section 5 and 66 of the AML/CFT Law the FIU acts as the supervisory body for service providers, while various sanctions are provided under Section 69 of the Law. , Hungary has amended its AML/CFT law (section 69(1)(e)) such that the supervisory body can remove the service provider from the registry or prohibit it from pursuing its activity for at least one, but at most 12 months.

8. **Criterion 15.7** - Guidance has been provided to the VASP sector through sectorial model rules issued by the HFIU. Feedback was provided to the sector representatives as a result of an Audit conducted in 2020. A table concerning the Audit decisions (including identified deficiencies and instructions given to entities) was shared by the Hungarian authorities.

9. **Criterion 15.8 –**

- (a) A range of administrative sanctions are in place (AML/CFT Act, section 69) The HFIU can also restrict business activity, as mentioned under C.15.6. Hungary has amended its legislation to give supervisors the power to apply fines ranging from HUF 100,000 to HUF 400,000,000 (the upper ceiling on fines is 1.01 m EUR). This is not necessarily proportionate, because the average turnover of all firms in the market (between 2020-2022) is nearly 10m EUR, and some of the operators are substantial in terms of size. For example, one VASP had a yearly turnover of 94.8m EUR in 2021 and a profit that year of 3.5m EUR. In this case a fine might not always be proportionate, even in the absence of any future growth in the sector.
- (b) The country has amended the AML/CFT Act (Section 69(1)(1)) such that supervisors can apply warnings and fines (with an upper limit of HUF 500,000) on the service provider's "executive officer, employee or assisting family member" for VASPs. "Executive officer" covers director and senior manager.

10. **Criterion 15.9** – According to the AML/CFT Act, covered VASPs are reporting entities required to comply with the requirements of Recommendations 10 to 21, to the same extent as other obliged entities. Shortcomings identified in R.10-21 are similarly applicable to VASPs.

- (a) Hungary's legislative amendments provide that CDD will be carried out in the case of a currency exchange and virtual currency exchange with an amount of at least HUF 300,000 (c.775 EUR). This also applies to linked transactions. The period of the linked transaction is one week, threshold is HUF 100,000 (c.252 EUR).
- (b) EU Regulation 2023/1113, in force since June 2023, introduces obligations regarding information that should accompany transfers of "certain crypto-assets", but will not be directly applicable in EU Member States until 30 December 2024. No national level action has been taken to ensure compliance with R.16 in the interim. Therefore, this part of the criterion is not met.

11. **Criterion 15.10** – The respective mechanisms are provided under the FRM Act and Ministerial Decree No. 21/2017.

12. **Criterion 15.11** – Hungary was assessed as largely compliant with R.37 – R.40. Consequently, international co-operation and exchange of information can occur with a view to covered VASPs in the extent allowed by the deficiencies identified under R.37 to R.40 in the 2016 MER.

Weighting and Conclusion

13. Overall, Hungary has taken some steps to implement the new requirements of Recommendation 15. C.15.1, c.15.2, c.15.3, c.15.5, c.15.6, c.15.7 and c.15.10 are rated as met, c.15.11 is rated as mostly met and c.15.4, c.15.8 and c.15.9 are rated as partly met. **R.15 is re-rated largely compliant.**

Annex B: Summary of Technical Compliance – Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating ¹⁰
R.8	PC (MER) PC (FUR1, 2017) PC (FUR6, 2024)	<ul style="list-style-type: none"> • Hungary has not substantiated its identification of organisations that meet the FATF's definition of NPO and considered these to identify the features and types of NPOs likely to be at risk of TF abuse. (c.8.1(a)) • Adequate qualitative and quantitative analysis, and sufficiently granular information on threats and is missing from Hungary's NRA (c.8.1(b)) • A thorough review of NPO laws and regulations has not been conducted. (c. 8.1 (c)) • There is no demonstration of periodic reassessment nor specific requirements on this. (c.8.1 (d)) • While Hungary has taken steps to increase accountability of the NPOs revising financial reporting obligation of NPOs (Gov. Resolution 479/2016), it does not have specific policies to promote accountability, integrity and public confidence. (8.2 (a)) • Further outreach and encouragement of the use of regular financial channels is required. (8.2 (b-d)) • There are shortcomings related to the application of targeted risk-based measures. (c.8.3) • The Law on Transparency, and associated penalty are not risk based. Sanctions for senior officers of NPOs are primarily tax violations-related, and do not appear to be dissuasive or proportionate – given the various types of violations that could be envisaged. (c.8.4).

10. Given the recommendations that are being considered, deficiencies listed here are those identified in relevant FURs, where the country has been reassessed against revised recommendations.

R.15	PC(MER) C (FUR1, 2017) PC (FUR 4, 2021) LC (FUR6, 2024)	<ul style="list-style-type: none"> • The definition of the VASPS provided under the AML/CFT law does not cover all the activities described in the glossary of the FATF Methodology and does not extend to the provision of financial services related to an issuer's offer and/or sale of a virtual asset. (c.15.4 (a)) • Criminal associates are not prevented to from holding or being beneficial owners of, a significant or controlling interest, or holding a management function in, a VASP. (c.15.4 (b)) • However, financial sanctions in place for covered VASPs are not proportionate (c.15.8 (a)) • No action has been taken to ensure compliance with R.16. (c.15.9 (b)) • International co-operation and exchange of information can occur with a view to covered VASPs in the extent allowed by the deficiencies identified under R.37 to R.40 in the 2016 MER. (15.11)
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GLOSSARY OF ACRONYMS

AML	Anti-money laundering
AML/CFT	Anti-money laundering and counter terrorism financing
C	Compliant
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FUR	Follow-up report
HFIU	Hungarian Financial Intelligence Unit
HUF	Forint
IT	Information technology
LC	Largely compliant
MER	Mutual evaluation report
ML/TF	Money laundering/terrorist financing
MNB	Central Bank of Hungary
NC	Non-compliant
NPO	Non-profit Organisation
NRA	National risk assessment
PC	Partially compliant
R.	Recommendation
TC	Technical compliance
TF	Terrorist financing
TEK	Counter Terrorism Centre
VASP	Virtual Asset Service Provider

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May 2024

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

**6th Enhanced Follow-up Report &
Technical Compliance Re-Rating**

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

Follow-up report