



COMMITTEE OF EXPERTS ON THE
EVALUATION OF ANTI-MONEY
LAUNDERING MEASURES AND THE
FINANCING OF TERRORISM
(MONEYVAL)

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Report on Fourth Assessment Visit – *Executive Summary*

Anti-Money Laundering and Combating the
Financing of Terrorism

HUNGARY

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LIST OF ACRONYMS USED

ACP	Act XIX of 1998 on Criminal Proceedings
AML Law	Anti-Money Laundering Law
AML/CFT Act	Act CXXXVI of 2007 on the Prevention and Combating of Money Laundering and Terrorist Financing
APS Act	Act CXL of 2004 on the General Rules of Administrative Proceedings and Services
BA	Bar Association
CCIB	Central Criminal Investigation Bureau
CDD	Customer Due Diligence
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CETS	Council of Europe Treaty Series
CFT	Combating the financing of terrorism
CIFE Act	Act CXII of 1996 on Credit Institutions and Financial Enterprises
CIT	Cash in Transit
The Council	Council of the European Union
CTR	Cash Transaction Reports
DNFBP	Designated Non-Financial Businesses and Professions
ECB	European Central Bank
ESW	Egmont Secured Web
ETS	European Treaty Series [since 1.1.2004: CETS = Council of Europe Treaty Series]
EU	European Union
EUROPOL	European Police Office
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FRM Act	Act CLXXX of 2007 on the Implementation of Financial and Asset-related Restrictive Measures ordered by the European Union, and on Respective Amendments of Other Laws
HCC	Hungarian Criminal Code
HCFG	Hungarian Customs and Finance Guard
HFIU	Hungarian FIU
HFSA	Hungarian Financial Supervisory Authority
HFSA Act	Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority
HTLO/TMSA	Hungarian Trade Licensing Office, Trade and Market Surveillance Authority
HUF	Hungarian Forint (rate at time of on-site visit used €1 = HUF270)
ICSFT	International Convention for the Suppression of the Financing of Terrorism
IN	Interpretative Note
INTERPOL	International Criminal Police Organisation
IT	Information Technology
LEA	Law Enforcement Agency
MER	Mutual Evaluation Report
MFA	Ministry of Foreign Affairs
ML	Money laundering
MLA	Mutual Legal Assistance
MNB	National Bank of Hungary

MoF	Ministry of Finance
MoJLE	Ministry of Justice and Law Enforcement
MOU	Memorandum of Understanding
NCCT	Non-cooperative countries and territories
NEBEK	International Criminal Cooperation Centre
NPHQ	National Police Headquarters
NSO	National Security Office
PEP	Politically Exposed Persons
RIF	Risk Information Form
SECI Centre	Southeast Europe Cooperative Initiative Regional Centre for Combating Trans-border Crime
SIRENE	Supplementary Information Request at the National Level
SIS	Schengen Information System
SRO	Self-Regulatory Organisation
STRs	Suspicious transaction reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TF	Terrorist financing
UN	United Nations
VMIF Act	Voluntary Mutual Insurance Fund Act

EXECUTIVE SUMMARY

Background information

1. This report summarises the major anti-money laundering and counter-terrorist financing measures (AML/CFT) that were in place in Hungary at the time of the 4th on-site visit (18 to 23 January 2010) and immediately thereafter. It describes and analyses these measures and offers recommendations on how to strengthen certain aspects of the system. The MONEYVAL 4th cycle of assessments is a follow-up round, in which Core and Key (and some other important) FATF Recommendations have been re-assessed, as well as all those for which Hungary received non-compliant (NC) or partially compliant (PC) ratings in its 3rd round report. This report is not, therefore, a full assessment against the FATF 40 Recommendations and 9 Special Recommendations but is intended to update readers on major issues in the Hungarian AML/CFT system.

Key findings

2. The core elements of Hungary's AML/CFT regime are established in the Hungarian Criminal Code (HCC), which contains the ML and TF offenses; Act CXXXVI of 2007 on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT Act). A new AML/CFT Act was introduced in 2007, when Hungary transposed the third EU AML/CFT Directive, and its Implementing Directive, into national law as well as introducing the financing of terrorism into preventive legislation.
3. Hungary has continued to develop and strengthen its AML/CFT regime since the third round report which was adopted in June 2005. There is, however, still a very low level of prosecutions for money laundering (ML) (*and of orders to confiscate assets*). In the view of the evaluators this significantly undermines the effectiveness of the regime. Furthermore, there appear to be deficiencies regarding the HFIU's operational independence and autonomy.
4. In terms of risk, as a consequence of Hungary's strategic location in central Europe, a cash-based economy, and a well-developed financial services industry, money laundering in Hungary is related to a variety of criminal activities, including illicit narcotics-trafficking, prostitution, trafficking in persons, fraud and organised crime. Other prevalent economic and financial crimes include official corruption, tax evasion, real estate fraud, and identity theft. Although there is a domestic terrorist organisation, the risk of the country being used as a base for terrorism or financing of terrorism is estimated as being low.

Legal Systems and Related Institutional Measures

5. Although minor legislative improvements have taken place since the publication of the 3rd Round MER, it can be concluded that the ML criminal provisions are largely in line with the material elements of the Vienna and Palermo Conventions.
6. The shortcomings with regard to the Vienna and Palermo Conventions, such as lack of physical element of conversion or transfer of property for the purpose of disguising the illicit

origin of the property (unclear) and for the purpose of helping any person who is involved in committing the predicate offence to evade the legal consequences of his or her action and unnecessary requirement of the purpose element for the acts of concealment and suppression (disguise) of location, disposition or ownership of or rights with respect to property, partial criminalisation of self-laundering and practical problems of proving the intent of concealing, in the view of the evaluators might have negative impact on the effective fight against money laundering by precluding the practitioners from using the full range of the norms of Vienna and Palermo Conventions.

7. The evaluators were concerned about the low number of convictions for money laundering offences compared to the large number of convictions for proceeds generating offences (18 since 2006). Moreover, the evaluators have considered not just the number of ML convictions but the type and quality of ML cases being brought forward after 16 years of criminalisation of ML in Hungary, against the background of proceeds generating crimes in the country and the comparative importance of the financial sector; though the Hungarian authorities were unable to provide the evaluators with the information relating to the types of ML convictions, almost all of the investigations (9 out of 10) in 2009 were related to self-laundering, which indicates that only the simplest cases are being taken forward.
8. The evaluation team welcomed the amendments made by Act XXVII of 2007 on the amendment of the Criminal Code with regards to financing of terrorism, making it possible to punish an attempt to provide or collect funds for an individual terrorist to commit a terrorist act. However, a number of shortcomings still prevent it from being fully in line with the requirements of SR II. The Criminal Code does not provide for an offence of terrorist financing in the form of provision or collection of funds with the unlawful intention that they should be used or in the knowledge that they are to be used by an individual terrorist for any purpose, it is unclear whether the financing of terrorist organisations' day to day activities are incriminated, and collection of funds for terrorist organisations' day to day activities is not covered.
9. The evaluators are aware that there has been a Hungarian domestic terrorist organisation and that since 2005 there have been 18 convictions for terrorist offences, however, the evaluators were not able to assess the possible financial dimension of these terrorist offences. Moreover, absence of any investigation, prosecution or conviction for terrorist financing raises concerns regarding the effectiveness and efficiency of the implementation of SR II.
10. While the legal framework for the confiscation regime is convincing in that it provides for a wide range of confiscation, seizure and provisional measures with regard to property laundered, proceedings from and instrumentalities used in and intended for use in ML and TF or other predicate offences, issues can be raised about its effectiveness particularly as in the context of the proceeds from proceeds generating crimes in the country.
11. The Hungarian legal background for asset/funds freezing related to terrorist financing has been created by the Act CLXXX of 2007 on the Implementation of Financial and Asset-related Restrictive Measures ordered by the European Union, and on Respective Amendments of Other Laws (FRM Act). The implementation of SR.III relies upon the application of binding EU legislation and overall coordination on dissemination of the lists is unclear and efficient coordination seems to be lacking. Although the FRM Act provides for the HFIU to constantly examine and monitor, on its own initiative, whether the designated persons have funds or economic resources which are subject to sanctions of the EU and the UNSC in Hungary, the scope of such powers and how they are used in practice is not clear.

Furthermore, Apart from the HFSA, there is no clear supervision by other regulators of compliance with SR.III and no clear capacity by them to sanction in the event of non-compliance. In particular, lack of awareness of the UN and EU lists in the non-banking sector gives rise to concerns of effectiveness of implementation.

12. In 2007, the FIU functions were transferred from the National Police Headquarters to the HCFG which is an armed law enforcement and public administration body supervised by the Minister in charge of tax policy. The HCFG is an agency of the central body that has nationwide jurisdiction and operates and manages its finances independently. Being a structural unit of the HCFG, there appear to be deficiencies regarding the HFIU's operational independence and autonomy. Furthermore, legislation does not expressly provide for the HFIU to have direct or indirect access, on a timely basis, to information to properly undertake its functions other than STR analysis. In particular, the evaluators considered that the low number of case reports submitted to law enforcement agencies for initiating open criminal ML/CFT investigations brings into question the effectiveness of the HFIU.
13. The current cross-border declaration system in place in Hungary is based on EU Regulation, hence it only applies to the movements at the borders between Hungary and non-EU Member States. Although the authorities stated that the HCFG carries out in-depth inspections along the internal and external borders of the EU by setting up mobile control units, there appears to be no legislative basis that covers all the requirements of SR IX on internal EU borders. In the evaluators' view this might have a negative impact on overall effectiveness of the cash control system. Furthermore, there is no administrative ability to stop/restrain or seize in the case of ML/FT and the sanctions available are not effective, proportionate or dissuasive.
14. Hungary has adopted and implemented a risk-based approach to AML/CFT, particularly in relation to customer/beneficial owner identification and verification requirements. Pursuant to the AML/CFT Act financial institutions are entitled to specify the extent of customer due diligence measures on a risk-sensitive basis. In this context the AML/CFT Act specifies minimum and maximum data sets for the identification of the customer and of the beneficial owner as well as for recording the details of the transaction order; although, the Law does not explicitly require enhanced monitoring in instances of enhanced due diligence.
15. Meetings with the private sector indicated a high level of awareness of the CDD requirements, and all categories of financial institutions appear to have developed a comprehensive understanding of the CDD and record-keeping obligations under the new AML/CFT Act. The Hungarian requirements on anonymous passbooks fall within the derogation of Article 6 of the EU's 3rd Money Laundering Directive, this is, however, not sufficient to meet the requirements of essential criteria. The definition of beneficial owner is not sufficiently broad and it is unclear whether this covers the ultimate beneficial owner and there is no explicit requirement to verify that a person purporting to act on behalf of the customer is so authorised.
16. The legislation on financial institution secrecy appears to enable the authorities to access the information that they require in order to exercise their functions in the fight against money laundering and terrorist financing and does not inhibit the implementation of the FATF recommendations. Furthermore, no problems appear to have been experienced in practice.
17. Overall the record keeping requirements were in line with the requirements of the Recommendations although, there is no provision to ensure that the mandatory record-

keeping period may be extended in specific cases upon request of the authorities and financial institutions are not specifically required to maintain records of business correspondence.

18. The wire transfer rules are clearly laid out under the AML/CFT Act where necessary. All representatives of providers of payment services met during the on-site visit appeared to be aware of their obligations when conducting transfers of funds.
19. The reporting level from the financial sector appears to be satisfactory although other institutions and DNFBPs show a significantly low level of reporting and only banks have submitted reports on terrorist financing and the significant decrease in the number of STRs in 2009 gives a rise to concerns over the effectiveness of the reporting system. There is no clear provision in the AML/CFT Act requiring reporting of predicate offences (including tax matters) to the HFIU and attempted transactions are not specifically covered. There are no specific guidance and indicators in place for obliged entities on reporting terrorist financing.
20. The HFSA is organised as a self-regulatory administrative body and has been established as the single regulatory body in charge of banking, insurance, securities and pension company supervision. The MNB is responsible for the licensing and supervision of companies that provide cash processing services in Hungary and has an independent supervisory authority. The HFSA and MNB have broad powers to supervise the relevant service providers and are able to use all their regulatory and prudential measures to control compliance with the AML/CFT requirements. Furthermore, the “fit & proper” requirements are only applicable to directors/executive officers and not to the senior management of financial institutions, with the exception of investment fund management companies. It was also considered that the sanctioning regime was not broad enough and that the sanctions available were not sufficiently dissuasive.

Preventive Measures – Designated Non Financial Businesses and Professions (DNFBP)

21. Overall the meetings with the private sector demonstrated high awareness and good understanding of the CDD and record-keeping obligations under the AML/CFT Act (apart from below mentioned exemptions). They also showed high awareness for sector specific and current AML/CFT risks. In particular, the extensive Model Rules issued by the competent authorities appear to provide a very useful basis for effective implementation of CDD and record keeping requirements. CDD as well as record-keeping requirements are integral parts of the inspection program for supervisors. However, the evaluators did note a weakness in the effective implementation of CDD requirements regarding real estate agents and dealers in high value goods.
22. Although all sectors appeared to be aware of their reporting responsibilities, the low number of STRs from the sector raises concerns about the effectiveness of the implementation by DNFBPs. In particular, there has been a significant decline in the number of STRs received from lawyers and notaries which appears to coincide with the implementation of new reporting arrangements.

Non-Profit Organisations

23. It would appear that, since the 3rd round evaluation report, insufficient steps had been taken to bring the Hungarian system into conformity with SR.VIII. A review of the sector has still not been undertaken and there has been insufficient outreach to the NPO sector. Concerns

remain about the transparency of the sector and insufficient steps have been taken to strengthen the legal basis for supervision and oversight over NPO fundraising.

National and International Co-operation

24. The authorities have a variety of mechanisms in place to facilitate cooperation and policy development. There are also effective mechanisms to facilitate cooperation between the agencies involved in investigating ML and TF.
25. Hungary has ratified the Vienna and Palermo Conventions and the Terrorist Financing Convention. The legislation has been amended in order to implement the Conventions, but existing legislation does not cover the full scope of these Conventions. Furthermore, measures still need to be taken in order to properly implement UNSCRs 1267 and 1373, in particular, legal persons do not appear to be liable for terrorist financing offences in practice and there is no definition of “funds” in the Criminal Code.
26. Legal provisions for providing mutual legal assistance are laid down in domestic law, bilateral and multilateral treaties and apply both to ML and FT and the possible forms of international cooperation cover a wide range of forms. However, at the time of the assessment, the effectiveness of the system could not be established because of a lack of comprehensive and adequately detailed statistics on MLA requests.
27. The Hungarian authorities appear to have sufficient powers to enable them to provide different forms of assistance, information and cooperation without undue delay or hindrance. The responses received to MONEYVAL’s standard enquiry on International Cooperation which was sent to MONEYVAL and FATF members received generally a positive response. However, as stated above, due to the lack of statistics it was not possible to assess how effectively the Hungarian authorities were responding to international requests for cooperation.

Other Issues

28. Overall, all supervisors and law enforcement agencies appeared to be adequately structured, resourced and trained.
29. It was considered that insufficient attention had been applied to the maintenance of meaningful statistics by the Hungarian authorities. This particularly applied in the areas of analysis of the outcome of STRs, investigations, criminal proceedings, convictions, provisional measures and confiscations. As a result the evaluators were concerned that the Hungarian authorities would not be able to perform a regular overview of the effectiveness and efficiency of the AML/CFT system based on statistical analysis. Similar concerns applied to areas such as cross border declarations, mutual legal assistance and international cooperation.

Table 1. Ratings of Compliance with FATF Recommendations

The rating of compliance vis-à-vis the FATF 40+ 9 Recommendations is made according to the four levels of compliance mentioned in the AML/CFT assessment Methodology 2004 (Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)), or could, in exceptional cases, be marked as not applicable (N/A).

The following table sets out the ratings of Compliance with FATF Recommendations which apply to Hungary. *It includes ratings for FATF Recommendations from the 3rd round evaluation report that were not considered during the 4th assessment visit. These ratings are set out in italics and shaded.*

Forty Recommendations	Rating	Summary of factors underlying rating ¹
Legal systems		
1. Money laundering offence	PC	<ul style="list-style-type: none"> • The physical elements of money laundering offence do not fully correspond to the Vienna and Palermo Conventions: <ul style="list-style-type: none"> • Conversion or transfer for the purpose of helping person who is involved in the commission of money laundering to evade consequences is not covered by Hungarian legislation; • Conversion or transfer for the purpose of disguising the illicit origin of property is unclear; • Unnecessary requirement of purpose element of concealing the true origin of the thing for the acts of concealment and suppress (disguise) of location, disposition or ownership of or rights with respect to property as well as for the act of “use in his economic activities”. • Concealment or disguise of the true nature, source and movement is not covered (Palermo A.6(1)(a)(ii)). <ul style="list-style-type: none"> • Self laundering is only partly covered. • Not all designated categories of offences are fully covered as predicates, as incrimination of the financing of an individual terrorist for any purpose is not covered, and the collection of funds for a terrorist organisation’ day-to-day activities is not clear. • Autonomous investigation and prosecution of the money laundering offence still constitute a challenge for the police and prosecutors. Given

¹ These factors are only required to be set out when the rating is less than Compliant.

		the level of proceeds generating offences in Hungary and the type and quality of the cases being brought (mainly self-laundering) the overall effectiveness of money laundering incrimination still needs to be enhanced.
2. <i>ML offence – mental element and corporate liability</i>	C	
3. Confiscation and provisional measures	LC	<ul style="list-style-type: none"> Lack of detailed and meaningful statistics on all aspects of confiscation negatively affects the assessment of effectiveness of the system.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	C	
5. Customer due diligence	LC	<ul style="list-style-type: none"> Anonymous savings passbooks issued before their prohibition in 2001 are still in circulation. The definition of beneficial owner is not sufficiently broad as it appears not to comprise the mind and management of a legal person and it is unclear whether it covers the <u>ultimate</u> beneficial owner (respectively <u>indirect</u> ownership and control). The legal provisions for the procedure to be applied for the verification of the beneficial owner are not clear. Apart from the collection of the maximum set of data no enhanced due diligence measures are required for higher risk categories of customers, business relationships or transactions. No explicit requirement to verify that person purporting to act on behalf of the customer is so authorized (except for services provided under the Payment Services Act) No explicit requirement to consider making a STR where the financial institution is unable to carry out the customer due diligence measures.
6. <i>Politically exposed persons</i>	LC	<ul style="list-style-type: none"> <i>A lack of explicit requirement regarding approval by senior management of continuing business relations with persons becoming PEPs after the establishment of a business relationship</i>

7. <i>Correspondent banking</i>	C	
8. <i>New technologies and non face-to-face business</i>	C	
9. <i>Third parties and introducers</i>	C	
10. Record keeping	LC	<ul style="list-style-type: none"> • No provision to ensure that the mandatory record-keeping period may be extended in specific cases upon request of the competent authorities • No requirement to maintain records of business correspondence.
11. <i>Unusual transactions</i>	C	
12. DNFBP – R.5, 6, 8-11 ²	LC	<ul style="list-style-type: none"> • The same concerns in the implementation of Recommendations 5 and 10 apply equally to DNFBPs. • Scope of the legal privilege for lawyers and notaries unclear. • Weakness in effective implementation of CDD requirements in particular as regards real estate agents and dealers in goods. • The activities of game rooms are not adequately limited in order to allow for a distinction from casinos and therefore exclude them from the scope of the AML/CFT Act.
13. Suspicious transaction reporting	PC	<ul style="list-style-type: none"> • Deficiencies in the incrimination of money laundering and terrorist financing could have an impact on the reporting of suspicious transactions. • No clear reporting obligation covering funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by terrorist organisations. • Attempted transactions are not explicitly covered. • Declining number of STRs give rise to

² The review of Recommendation 12 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 9 and 11.

		general concerns over the effectiveness of the system.
<i>14. Protection & no tipping-off</i>	C	
<i>15. Internal controls, compliance and audit</i>	C	
16. DNFBP – R.13-15 & 21 ³	PC	<ul style="list-style-type: none"> • Low number of STRs from DNFBPs (effectiveness issue). • The same shortcomings as identified under Recommendation 13 and Special Recommendation IV apply.
17. Sanctions	PC	<ul style="list-style-type: none"> • Senior management not included in the sanctioning regime of the CIFE Act. • Range of sanctions under the Investment Act and the CIFE Act not broad enough. • Limited effectiveness.
<i>18. Shell banks</i>	C	
<i>19. Other forms of reporting</i>	C	
<i>20. Other DNFBP & secure transaction techniques</i>	C	
<i>21. Special attention for higher risk countries</i>	C	
<i>22. Foreign branches and subsidiaries</i>	C	
23. Regulation, supervision and monitoring	LC	<ul style="list-style-type: none"> • No assessment of criminal records regarding members of the supervisory board of financial institutions other than insurance companies. • No assessment of criminal records of persons holding a qualifying interest in investment fund management companies. • “fit & proper” requirements only applicable to directors/executive officers and not to the senior management of financial institutions

³ The review of Recommendation 16 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 14, 15 and 21.

		(with the exception of investment fund management companies).
24. <i>DNFBP - regulation, supervision and monitoring</i>	<i>LC</i>	<ul style="list-style-type: none"> • <i>Supervision of DNFBPs without state or professional supervision understaffed</i>
25. <i>Guidelines and Feedback</i>	<i>LC</i>	<ul style="list-style-type: none"> • <i>No guidance on CFT for DNFBPs</i>
Institutional and other measures		
26. The FIU	PC	<ul style="list-style-type: none"> • There exist some deficiencies regarding the operational independence and autonomy of the HFIU. • The absence of a timeframe in legislation for indirect access to information <u>on a timely basis</u> in order to enable the HFIU to properly undertake its functions, including the analysis of STR could undermine its operational effectiveness. • The low number of case reports submitted to law enforcement agencies for initiating common and organised crime related ML brings into question the effectiveness of the HFIU as well as the absence of indictments arising from the dissemination of STRs.
27. <i>Law enforcement authorities</i>	<i>LC</i>	<ul style="list-style-type: none"> • <i>Insufficient focus on potential ML offenses and relatively low number of prosecutions and convictions</i>
28. <i>Powers of competent authorities</i>	<i>C</i>	
29. <i>Supervisors</i>	<i>C</i>	
30. <i>Resources, integrity and training</i>	<i>C</i>	
31. <i>National co-operation</i>	<i>C</i>	
32. Statistics ⁴	PC	<ul style="list-style-type: none"> • Inadequate statistics on investigation and prosecution of funds generating crimes • Coordination on gathering of statistics is

⁴ The review of Recommendation 32 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 38 and 39.

		<p>lacking which prevents the authorities from undertaking a comprehensive review of the effectiveness of the system on combating money laundering and terrorist financing</p> <ul style="list-style-type: none"> • It is not clear whether the Hungarian authorities perform a regular overview of the effectiveness and efficiency of the AML/CFT system based on statistical analysis. • No statistics on the outcome of STRs forwarded to law enforcement agencies. • No statistics maintained about on-site examinations conducted by DNFBP supervisors relating to or including AML/CFT and any sanctions applied. • No detailed statistics related to mutual legal assistance. • No statistics kept on MLA requests refused, grounds for refusal, on the time required to handle them and on predicate offences related to requests. • Statistics of MLA by MoJLE and the Prosecutor General’s office not easily available. • No statistics on other forms of international co-operation.
<i>33. Legal persons – beneficial owners</i>	C	
<i>34. Legal arrangements – beneficial owners</i>	N/A	
International Co-operation		
35. Conventions	PC	<ul style="list-style-type: none"> • Reservations about certain aspects of the implementation of the Vienna Convention, Palermo Convention and the TF Convention. • Effectiveness of the implementing the standards in relation to ML and TF give rise to doubts. • There is no definition of “funds” in the Criminal Code. • Financing of certain aspects of the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation have

		<p>not been criminalised.</p> <ul style="list-style-type: none"> • Legal persons do not appear to be liable in practice for TF offences as required by UN TF Convention.
36. Mutual legal assistance (MLA) ⁵	LC	<ul style="list-style-type: none"> • No formal timeframes which would enable to determine whether requests are being dealt with timely, constructively and effectively. • The application of dual criminality may negatively impact Hungary’s ability to provide assistance due to shortcomings identified in respect to the scope of the TF and ML offences. • Effectiveness cannot be demonstrated due to the absence of statistics on MLA requests relating to ML, predicate offences and TF.
37. Dual criminality	C	
38. MLA on confiscation and freezing	C	
39. Extradition	C	
40. Other forms of co-operation	LC	<ul style="list-style-type: none"> • Lack of detailed statistics undermines the assessment of effectiveness
Nine Special Recommendations		
SR.I Implement UN instruments	PC	<ul style="list-style-type: none"> • Implementation of UNSCRs 1373 is not yet sufficient. • There is no definition of “funds” in the Criminal Code. • Financing of certain aspects of the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation are not been criminalised.. • Legal persons do not appear to be liable in practice for TF offences as required by UN TF Convention.
SR.II Criminalise terrorist financing	PC	<ul style="list-style-type: none"> • The Criminal Code does not provide for an

⁵ The review of Recommendation 36 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendation 28.

		<p>offence of terrorist financing in the form of provision or collection of funds with the unlawful intention that they should be used or in the knowledge that they are to be used by an individual terrorist for any purpose.</p> <ul style="list-style-type: none"> • It is unclear whether the financing of terrorist organisations’ day to day activities are incriminated, and collection of funds for terrorist organisations’ day to day activities is not covered. • No definition of “funds” as defined in the Terrorist Financing Convention. • No explicit coverage of direct or indirect collection of funds/usage in full or in part, without the funds being used or linked to a specific terrorist act. • The financing of certain aspects of the Convention for the Suppression of Unlawful Acts against the safety of Civil Aviation have not been criminalised.
<p>SR.III Freeze and confiscate terrorist assets</p>	<p>PC</p>	<ul style="list-style-type: none"> • Lack of awareness in the non-banking sector of the UN and EU lists gives rise to concerns of effectiveness of implementation. • Within the context of UNSCR 1373, there is no national mechanism for evaluation of requests to freeze the funds of EU internals (citizens or residents). • Hungary does not have an effective and publicly known national procedure for the purpose of delisting. • Hungary does not have effective national procedure for unfreezing, in a timely manner, requests upon verification that the person or entity is not designated person. • The scheme for communication of actions taken under freezing mechanisms appears to be fragmented and may not operate effectively. • Apart from the HFSA, there is no clear supervision by other regulators of compliance with SR.III and no clear capacity by them to sanction in the event of non-compliance. • The deadline for freezing transactions (assets) by the service providers is relatively short and

		that this is a significant gap in the system in terms of having effective procedures to freeze terrorist funds without delay.
SR.IV Suspicious transaction reporting	PC	<ul style="list-style-type: none"> • No clear reporting obligation covering funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by terrorist organisations. • Deficiencies in the criminalisation of terrorist financing limit the reporting obligation. • Attempted transactions are not explicitly covered. • Low number of STRs gives rise to concerns over effectiveness of implementation.
SR.V International co-operation ⁶	LC	<ul style="list-style-type: none"> • No formal timeframes which would enable to determine whether requests are being dealt with timely, constructively and effectively. • The application of dual criminality may negatively impact Hungary's ability to provide assistance due to shortcomings identified in respect to the scope of the TF offences. • Effectiveness cannot be demonstrated due to the absence of statistics on MLA requests relating to ML, predicate offences and TF. • Lack of detailed statistics undermines the assessment of effectiveness
SR.VI AML requirements for money/value transfer services	C	
SR.VII Wire transfer rules	C	
SR.VIII Non-profit organisations	NC	<ul style="list-style-type: none"> • No special review of the risks in the NPO sector undertaken. • Insufficient outreach to the NPO sector on FT risks. There is no formalised and efficient system in place that focuses on potential vulnerabilities. • No clear legal provisions in place to require and maintain information on NPOs purposes

⁶ The review of Special Recommendation V has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3rd round report on Recommendations 37, 38 and 39.

		<p>and objectives in relation to their activities.</p> <ul style="list-style-type: none"> • No clear identification of those NPOs that account for a significant portion of financial resources under the control of the sector and a substantial share of the sector’s international activities. • No specific meaningful measures or sanctioning capability for the most vulnerable parts of the sector.
<p>SR.IX Cash Couriers</p>	<p>PC</p>	<ul style="list-style-type: none"> • No administrative ability to stop/restrain or seize in the case of ML/FT. • Sanctions available are not effective, proportionate or dissuasive. • Deficiencies in the implementation of SR.III may have an impact on the effectiveness of the regime. • Lack of available statistics meant that the authorities could not fully demonstrate the effectiveness of the declaration system. • The system is limited to movements beyond the EU.(effectiveness issue)