

**Hungary: Report on the Observance of Standards and Codes—  
FATF Recommendations for Anti-Money Laundering and Combating the  
Financing of Terrorism**

This Report on the Observance of Standards and Codes on the FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism for **Hungary** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in **September 12, 2005**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Hungary** or the Executive Board of the IMF.

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**International Monetary Fund  
Washington, D.C.**



INTERNATIONAL MONETARY FUND

HUNGARY

**Report on Observance of Standards and Codes (ROSC)  
FATF Recommendations for Anti-Money Laundering and Combating the Financing of  
Terrorism (AML/CFT)**

Prepared by the Monetary and Financial Systems Department

Approved by Stefan Ingves

September 12, 2005

**EXECUTIVE SUMMARY**

This Report on the Observance of Standards and Codes for the FATF 40 Recommendations 2003 for Anti-Money Laundering (AML) and 9 Special Recommendations on Combating the Financing of Terrorism (CFT) was prepared by a team composed of staff of the International Monetary Fund and an expert under the supervision of Fund staff, using the AML/CFT Methodology 2004. It provides a summary of the level of observance with the FATF 40+9 Recommendations and recommendations to strengthen observance.

The Hungarian authorities have made significant progress in strengthening their AML/CFT regime in the four years since the last assessment. With the passage of the revised AML Act of 2003, the legislative framework for AML is in place and has been extended to nonfinancial businesses and professions. Financial institutions' compliance with the AML requirements is well-supervised.

These impressive efforts notwithstanding, some gaps remain in the legislative framework for CFT and the implementation of the AML measures needs to be improved. The authorities have indicated their intention to address these issues in the context of the implementation of the Third European Union (EU) Directive on Money Laundering which was approved by the EU Parliament in May 2005.

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### ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AML Act	Act XV of 2003 on the Prevention and Combating of Money Laundering
CDD	Customer Due Diligence
CPC	Criminal Procedure Code
DNFBP	Designated nonfinancial businesses and professions
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSRB	FATF-style Regional Body
FT	Financing of terrorism
GPO	General Prosecutor's Office
HCC	Hungarian Criminal Code
HCFG	Hungarian Customs and Finance Guard
HCPC	Hungarian Criminal Procedures Code
HFSA	Hungarian Financial Supervisory Authority
HUF	Hungarian Forint
HGB	Hungarian Gaming Board
KYC	Know your customer/client
LEA	Law Enforcement Agency
LEG	Legal Department, IMF
MFD	Monetary and Financial Systems Department, IMF
ML	Money Laundering
MLRO	Money Laundering Reporting Officer
MoE	Ministry of Economy
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI	Ministry of Interior
MoJ	Ministry of Justice
NBH	National Bank of Hungary
NCA	National Communication Authority
NCCT	Non-Cooperative Countries and Territories
NPHQ	National Police Head Quarters
NPO	Non-profit organization
PBO	Public-benefit NPO
ROSC	Report on Observance of Standards and Codes
SPs	Service Providers
ST	Suspicious Transactions
STR	Suspicious Transaction Report
UN	United Nations
UNSC	United Nations Security Council
UNSCR	United Nations Security Council Resolution

## I. INTRODUCTION

1. This Report on the Observance of Standards and Codes for the *FATF 40 Recommendations 2003 for Anti-Money Laundering (AML) and 9 Special Recommendations on Combating the Financing of Terrorism (CFT)* was prepared by a team composed of staff of the International Monetary Fund and an expert under the supervision of Fund staff,<sup>1</sup> using the AML/CFT Methodology 2004. It provides a summary of the level of observance with the FATF 40+9 Recommendations and recommendations to strengthen observance.

2. In preparing the detailed assessment, the team reviewed the legal, regulatory, and institutional frameworks and systems pertaining to AML/CFT in financial institutions and designated nonfinancial business and professions (DNFBPs) and examined the capacity, the implementation, and the effectiveness of these systems. The assessment is based on the information provided at the time of on-site visit by the team from February 21–March 4, 2005 and immediately thereafter.

## II. MAIN FINDINGS

3. The Hungarian authorities have made significant progress in strengthening their AML regime in the four years since the last assessment. The most important step was the passage of a revised AML Act of 2003, replacing the 2001 revision of the original 1994 AML Act. With this, the legislative framework for AML is in place and has been extended to nonfinancial businesses and professions. Financial institutions' compliance with the AML requirements is well-supervised and they are well aware of their obligations under the Act.

4. These impressive efforts notwithstanding, some important gaps remain in the legislative framework for CFT and the implementation of the AML measures needs to be improved. The authorities have indicated their intention to address these issues in the context of the implementation of the Third European Union (EU) Directive on money laundering (ML), which was approved by the EU Parliament on May 26, 2005. Nonetheless, work on some of these issues should commence immediately.

### A. General

#### **Situation of Money Laundering and Financing of Terrorism**

5. The Hungarian authorities report only seven prosecutions for money laundering in the last four years with the predominant predicate offenses being fraud, misappropriation, and illegitimate financial service activity. Hungarian criminal statistics and reports of international organizations indicate that other profit-making crimes (e.g., drug-related offenses) take place and additionally testify to the presence of organized crime families in

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<sup>1</sup> The assessment team was composed of Kiyotaka Sasaki and Paul Ashin (both MFD), Giuseppe Lombardo (LEG) and Dirk Merckx (Public Prosecutor of Belgium).

Hungary.<sup>2</sup> It would seem reasonable to expect that there should be more money-laundering prosecutions on the basis of such profit-making crimes.

6. Few terrorist-related cases have been encountered in Hungary and those were not related to international terrorism in the strict sense, but rather forms of domestic terrorism in a broad meaning, including offenses such as hostage-taking or other serious offences endangering public order.

### **Overview of Financial Sector and DNFBPs**

7. As of September 2004, the Hungarian financial system was composed of 32 banks, 5 specialized credit institutions, 178 cooperatives, 199 financial enterprises, 18 investment enterprises, 24 investment funds, 65 insurance companies, and 168 pension/health related funds. They are all supervised by the Hungarian Financial Supervisory Authority (HFSA). Money transfer services and currency exchange activities are also licensed and supervised by the HFSA.

8. The HFSA was established on April 1, 2000, as a single supervisor of the financial sector. Hungary's legal system does not provide the HFSA with the power to issue legally-binding rules and regulations to the financial sector. However, the HFSA has a power to issue guidelines, recommendations, and model rules for the financial institutions, supported by its power to invoke sanctions for noncompliance. The HFSA also plays an important role along with the National Bank of Hungary (NBH) in the drafting of a legally-binding Decree issued by the Ministry of Finance (MoF).

9. For AML/CFT purposes, Hungary's DNFBPs can be divided into three categories, based on the type of oversight. Casinos are directly under the supervision of the Hungarian Gaming Board (HGB); lawyers, notaries, and auditors are supervised by their respective professional bodies or chambers; and other businesses and professions (accountants, real estate agents, high-value goods dealers, etc.) directly by the Financial Intelligence Unit (FIU). The latter group is the most numerous, comprising some 50,000 individuals and businesses. An additional 15,000 professionals are supervised by their Chambers. Hungary has six casinos.

10. There are some 49,000 nonprofit organizations (NPOs) in Hungary, which are characterized by a relatively high level of state support and a relatively low level of private donations.

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<sup>2</sup> MONEYVAL, "Mutual Evaluation/Detailed Assessment Questionnaire—Hungary" (Budapest, January 31, 2005), Annex 1; MONEYVAL, "Second round evaluation report on Hungary," (Strasbourg, December 13, 2002), pp. 5–8; United States Department of State, "International Narcotics Control Strategy Report - [2003](#)" (March 2004), Hungary sections in Parts I and II.

## **B. Legal Systems and Related Institutional Measures**

11. Hungary has a substantial AML legal and institutional framework for combating ML including preventive measures for a wide range of service providers (SPs) and law enforcement measures. There are a number of areas which can be strengthened. The scope of criminalization of ML should be enlarged to take into account fully the requirements of the international conventions. The criminal provisions regarding financing of terrorism (FT) should be revised in order to include the financing of individual terrorists. The suspicious transaction reporting (STR) system, including the guidelines for DNFBPs, should cover transactions which are suspected to be aimed at FT. The asset-freezing mechanisms should be enhanced particularly with respect to FT.

12. The ML offense, while it addresses self-laundering, covers only using the proceeds of crime in the business activity of the perpetrator or in a bank or financial transaction. The scope of the offense should be enlarged to cover all the circumstances set forth by the Vienna and Palermo conventions.

13. The relevant provisions regarding FT are quite complex and contained within the definition of acts of terrorism. Moreover, the offense is defined in relation to the financing of the activities of terrorist groups, while the financing of individual terrorists is only covered through ancillary offenses. The criminal provision should cover all conduct constituting terrorist financing as set forth in the UN International Convention for the Suppression of the Financing of Terrorism.

14. There is no legal obligation in the current Hungarian legislative framework to report a transaction on the basis of a suspicion that the funds involved may be relevant to terrorism<sup>3</sup>. SPs—normally a key source of information—are thus not directly engaged in the identification and detection of terrorist-related funds, which decreases the chances of detection and forfeiture. The AML Act also lacks any provision for suspending a transaction based on suspicions of FT (as opposed to ML) which eliminates the option of freezing assets in such a case.

15. Similarly, unlike in the case of ML and of large-value movements generally, the Hungarian Customs and Finance Guard (HCFG) is not under a reporting obligation regarding suspicious cross-border movements of valuables related to FT, nor do they appear to have the right to freeze such assets. While the EC Regulations 881/2002 and 2580/2001 are self-executing in Hungary as an EU member state, there is no domestic legislation implementing the United Nations Security Council Resolutions (UNSCRs) 1267 and 1373, which is especially problematic in relation to the freezing of nonbanking/financial assets.

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<sup>3</sup> However, the Recommendation of the President of the HFSA 1/2004 provides that financial institutions should pay increased attention to the lists of terrorists and terrorism organizations and that they should immediately report to the competent investigation authorities in case of a suspicion of FT.

16. It is recommended that a clear legal basis for the obligation to report suspicious transactions (STs) related to FT be established and that relevant requirements and supervisory oversight by the competent authorities also be imposed in the case of FT. Measures should be taken to authorize the immediate freezing of terrorism-related assets. The powers of the HCFG and the sanctions available to them should also be strengthened.

17. The STR system should be reviewed. Currently, the system is producing a high volume of relatively low quality STRs from financial institutions and a negligible number of STRs from DNFBPs. The potential over-reporting from financial institutions could be linked to the criminal liability for both willful and negligent nonreporting under the Hungarian Criminal Code (HCC), which was also a concern for all SPs. This regime appears to have led to a large amount of “defensive reporting,” rather than attempts to identify the real suspicious ones, as very few of the STRs have led to investigations and none to prosecutions. Out of 14,120 STRs received in 2004, only 20 cases turned into investigations and no prosecution was ever started out of an investigation arising from an STR. It is recommended that the penalties for criminal nonreporting be more proportionate to the offense, especially in the case of negligence, for instance by imposing appropriate fines and measures taken to improve the quality of STRs.

18. The FIU at the National Police Headquarters (NPHQ) bears the brunt of the over-reporting and consequently may not be sufficiently staffed to both perform its core functions and to take on the supervisory role assigned to it by the AML Act over those DNFBPs that lack state or professional supervision. These supervisory functions might fit poorly in a police-based FIU, due to the high potential for blurring of supervisory, investigatory, and enforcement roles. Authorities should consider finding another institutional framework for supervising these SPs. On the other hand, the FIU should be given a clear competence in CFT, with a repository and analysis function also over the STRs for FT.

19. The Hungarian pre-investigative and criminal procedure provisions provide a modern and coherent set of rules for the authorities to conduct ML and FT investigations, comprising all necessary ordinary and specific investigative techniques. However, despite this ready-to-use system, and despite the ample training given to the judiciary as well as the police, there are hardly any convictions in these areas. As far as FT is concerned, this might be a consequence of the reality that, as according to the evaluation of the Hungarian authorities, there seems to be very little terrorist activity on their territory. However, in the area of ML, the lack of effective enforcement of the existing system is a major shortcoming that will have to be addressed by the authorities

20. The complex rules criminalizing ML, the limited notion of “financial transaction,” and the especially complex rules on the FT offenses could be among the reasons these offenses are difficult to prosecute in Hungary.

21. An even more significant reason could be that the authorities do not pay sufficient attention to the link between profit-making predicate offenses, especially those related to organized crime, and ML. Although specialized organs have been created to gather

intelligence on organized crime, this information appears not to have been widely used to attack these criminal profits through ML prosecutions and the seizing and confiscating of assets. However, the number of prosecutions for such predicate offenses clearly indicates that a significant increase in ML investigations is possible.

### **C. Preventive Measures—Financial Institutions**

22. The AML Act mandates comprehensive preventive measures for financial institutions including customer due diligence (CDD), record keeping, suspicious transaction reporting, and internal controls for AML. In addition, the Recommendation of the President of the HFSA No.1/2004 provides more detailed requirements and guidance for AML compliance by financial institutions. The HFSA reviews and updates this Recommendation to cover new issues and requirements in the international standards, including the revised FATF Recommendations as well as the CDD paper by the Basel Committee.<sup>4</sup>

23. Under the AML Act, the HFSA issued model rules to help institutions in each financial sector develop internal procedures/regulations for AML and has reviewed and approved the internal procedures/regulations for AML prepared by all the financial institutions. The HFSA ensures compliance by conducting off-site monitoring and on-site inspections to review the effectiveness of internal AML controls, including the implementation of these internal procedures/regulations, and by taking administrative actions/sanctions necessary to rectify any deficiencies identified.

24. Apart from the AML Act, the relevant legislation for each financial sector, (including the Act on Credit Institutions and Financial Enterprises, the Act on Insurance Institutions and the Insurance Business and the Capital Market Act), institutes measures to prevent criminals and their associates from holding ownership and control of the financial institutions. The HFSA reviews the fitness and properness of owners, shareholders, other stakeholders, and senior management during the licensing process and subsequent ongoing supervision.

25. One weakness in an otherwise robust CDD and record-keeping system—for both financial institutions and DNFBPs—is the treatment of beneficial owners. According to the AML Act and most of the model rules issued by the supervisory bodies, when a client states that he or she is acting on behalf of another party who is the actual owner of the assets in question, the SP only has to collect a limited amount of information concerning that beneficial owner. Measures need to be taken to require full information for the identification of beneficial owners.

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<sup>4</sup> The HFSA updated the Recommendation relating to CDD requirements for correspondent banking relationship in April 2005 immediately following the on-site visit by the assessment team.

#### **D. Preventive Measures—Designated Non-Financial Businesses and Professions**

26. DNFBPs, like other SPs, are subject to CDD, record-keeping, and STR requirements. The problem of CDD information for beneficial owners also applies to DNFBPs. In addition, high-value goods dealers are required to record cash transactions above a HUF 2 million threshold (US\$11,000). Each entity must establish internal AML/CFT rules, based on models circulated by their supervisory authority, and businesses with more than 10 employees must have a compliance officer and conduct training. Supervisory bodies are obliged to conduct on-site checks of compliance with these requirements. DNFBPs have not been uniformly alerted to the enhanced due diligence requirements for politically exposed persons (PEPs) and jurisdictions of concern.

27. A more operational weakness in the Hungarian DNFBP AML/CFT regime is that relatively few have filed any STRs. This state of affairs may reflect the relative novelty of AML/CFT issues in these sectors compared to financial institutions. Fully incorporating these businesses and professions into the AML/CFT system will require active outreach, training, and awareness-raising activities on the part of the authorities, working where possible with the professional organizations and supervisory bodies.

28. The strength of supervision varies between these businesses and professions. Casinos are under the most vigorous and consistent supervision. The professional Chambers are aware of their responsibilities, have disseminated materials to their members, and claim to check on compliance (although this oversight has not resulted in any sanctions).

#### **E. Legal Persons and Arrangements and Non-Profit Organizations (NPOs)**

29. The Hungarian authorities have not yet undertaken a review of the vulnerabilities of their NPO sector, although the draft of Second National Action Plan of the Interministerial Task Force on Counterterrorism is reported to contain plans for such a review. One aspect of the review, consistent with the FATF best practice paper's concern with "raising and distributing funds (Paragraph 3)" could be whether the act of raising funds from the public is adequately regulated under current Hungarian law. More generally, the regime for NPO oversight relies in large measure on a prosecutorial authority that pre-dates the establishment of an NPO sector in Hungary and may not be adequate for the current size of the sector.

#### **F. National and International Cooperation**

30. The Hungarian government set up an Interministerial Committee on Anti-Money Laundering in 2001 and an Interministerial Working Group Against Terrorism under the direction of the Minister of Interior to implement the EU policy in the fight against terrorism and to meet other related international obligations. It adopted a National Action Plan against terrorism, whose most significant unmet goals include ratifying the Palermo Convention, improving the exchange of intelligence and cooperation among international police forces, adopting domestic legislation to allow freezing of intangible, real, and tangible assets of

suspected terrorists, and amending the existing provision pertaining to the freezing of financial assets.

31. The implementation of the UN Convention on FT and UNSCRs 1267, 1269, 1333, and 1390, however, still appears to pose some issues. Even though EU regulations regarding CFT would be immediately applicable in Hungary as an EU member state, domestic legislation is needed to impose sanctions for the violation of the EU CFT obligations. There are also some issues concerning the freezing of real goods (related to the practical implementation of the freezing obligation set forth in the EU regulations), which are not currently covered by domestic legislation. Besides the Government Decree 306/2004 which deals with unfreezing, there is no other domestic legislation implementing UNSCR 1267 nor UNSCR 1373.

32. The Authorities have acknowledged these issues in the National Plan of Action to Combat Terrorism. It is recommended that Hungary ratify the Palermo convention and adopt domestic legislation to implement UNSCR 1267 and 1373.

### III. SUMMARY ASSESSMENT AGAINST THE FATF RECOMMENDATIONS

33. Overall, the current framework in Hungary to prevent ML is extensive and Hungary complies well with most of the FATF 40 Recommendations, but some important gaps remain in the legislative framework for CFT and in AML implementation. Table 1 summarizes recommended actions in areas related to the FATF 40+9 Recommendations.

Table 1. Recommended Action Plan to Improve the AML/CFT System

FATF 40+9 Recommendations	Recommended Action (listed in order of priority)
<b>1. General</b>	No text required
<b>2. Legal System and Related Institutional Measures</b>	
Criminalization of Money Laundering (R.1 & 2)	<ul style="list-style-type: none"> <li>• Enlarge the scope of the ML offense so that it covers all the circumstances set forth by the Vienna and Palermo Conventions.</li> <li>• Harmonize Article 303 and 303A so that the same definition of “item” will be formally applicable to both provisions.</li> </ul>
Criminalization of Terrorist Financing (SR.II)	There should be a separate provision for FT, particularly for the case of financing terrorist acts which are not to be committed or intended to be committed by a terrorist group.

<p>Confiscation, freezing and seizing of proceeds of crime (R.3)</p>	<ul style="list-style-type: none"> <li>• Consideration should be given to providing the FIU with statutory authorization to freeze assets and suspend transactions.</li> <li>• Consideration should be given to creating a system of administrative freezing, granting the FIU, Police and Prosecutor a reasonable period of time to check the facts of the case in detail, without immediately having to open a criminal investigation.</li> <li>• Much more consideration should be given to the taking away of the proceeds of crime. The number and amounts of seizures and confiscations should increase noticeably, given the high number of prosecutions for economic crime. Operational practice should more consistently and systematically link seizure/confiscation with investigations.</li> </ul>
<p>Freezing of funds used for terrorist financing (SR.III)</p>	<ul style="list-style-type: none"> <li>• Create legal authority for the financial institutions to freeze upon suspicion of terrorist financing.</li> <li>• Provide the FIU, Police and Prosecutor with an autonomous competence to freeze in cases of suspicious transactions possibly linked to FT.</li> <li>• Provide a sufficient period of freezing in order to do serious checks before having to start criminal investigations.</li> <li>• Provide clear procedures for de-listing and un-freezing also for the UNSCR.</li> </ul>
<p>The Financial Intelligence Unit and its functions (R.26, 30 &amp; 32)</p>	<ul style="list-style-type: none"> <li>• Placing responsibility for CFT matters with the FIU and establishing a clear obligation to report to FIU STRs related to FT.</li> </ul> <p>Consideration should be given to:</p> <ul style="list-style-type: none"> <li>• Given the Police nature of the FIU and number of staff, placing the supervisory function over DNFBPs outside the FIU;</li> <li>• The FIU continuing to upgrade its software;</li> <li>• The analysis of STRs by the FIU identifying as much as possible underlying predicate offences; and</li> <li>• Having the statistics of STRs compiled by the FIU provided in greater detail and containing references to predicate offence where possible.</li> </ul>
<p>Law enforcement, prosecution and other competent authorities (R.27, 28, 30 &amp; 32)</p>	<ul style="list-style-type: none"> <li>• Strengthening the HCFG competences in AML/CFT, specifically placing more emphasis on the financial angle of the investigations.</li> <li>• The investigations on organized crime should focus more on potential ML offenses and be more closely coordinated with ML investigations.</li> <li>• Law Enforcement officials must gain more practical experience in ML investigation and prosecution through a more generalized and aggressive prosecution policy and a more innovative and daring use of the existing tools is necessary.</li> </ul>
<p>Cash couriers (SR IX)</p>	<ul style="list-style-type: none"> <li>• Identification, record keeping and reporting requirements should apply also in the case of FT.</li> <li>• HCFG should be given the authority to stop/restrain the cash to ascertain whether evidence may be found for ML/FT.</li> <li>• Sanctions should be more effective and dissuasive.</li> <li>• Immediate seizure should be available in the case of cash and valuables related to ML/FT.</li> </ul>

<b>3. Preventive Measures–Financial Institutions</b>	
Customer due diligence, including enhanced or reduced measures (R.5 to 8)	<ul style="list-style-type: none"> <li>• Measures need to be taken to require full information for the identification of beneficial owners, for example by the AML Act and the supervisory rules by the HFSA.</li> <li>• There should be explicit requirements regarding approval by senior management of continuing business relations with persons becoming PEPs after the establishment of a business relationship.</li> </ul>
Record keeping and wire transfer rules (R.10 & SR.VII)	Ensure that, for the payment form in domestic ICS system, sufficient space for information on the originator (name, address and account number) should be allowed as planned.
Monitoring of transactions and relationships (R.11 & 21)	The authorities may consider requiring explicitly that financial institutions keep records of findings of screenings.
Suspicious transaction reports and other reporting (R.13-14, 19, 25 & SR.IV)	<ul style="list-style-type: none"> <li>• A clear legal basis for the obligation to report suspicious transactions relating to the financing of terrorism should be established.</li> <li>• Further efforts are needed to improve the capabilities of financial institutions to detect STRs related to ML and FT.</li> <li>• Reporting STRs should be in electronic format.</li> </ul>
Internal controls, compliance, audit and foreign branches (R.15 & 22)	The authorities may consider introducing more explicit requirements to require financial institutions to ensure their foreign branches and subsidiaries observe AML/CFT measures in Hungary and inform the HFSA when they are unable to observe AML/CFT measures in foreign jurisdictions.
The supervisory and oversight system–competent authorities and SROs (R. 17, 23, 29 & 30).	<ul style="list-style-type: none"> <li>• The authorities should review the effectiveness of the current regime of imposing terms of imprisonment for negligent non-reporting of suspicious transactions under the Section 303/B of the HCC.</li> <li>• A clear legal basis for STR obligation relating to FT should be established to ensure effective supervisory oversight for CFT.</li> </ul>
Ongoing supervision and monitoring (R.23, 29 & 32)	A clear legal basis for STR obligation relating to FT should be established to ensure effective supervisory oversight for CFT.
<b>4. Preventive Measures–Nonfinancial Businesses and Professions</b>	
Customer due diligence and record-keeping (R.12)	<ul style="list-style-type: none"> <li>• The rules and practices of notaries should be reviewed to ensure that the notary collect full CDD information for any third party to whom he or she may transfer money, valuables, or securities.</li> <li>• The beneficial owner identification process should be strengthened both in the AML legislation and in the various directives and guidelines, to require full information for natural and legal persons.</li> </ul>
Monitoring of transactions and relationships (R.12 & 16)	Enhanced due diligence for PEPs and wider and more systematic dissemination to DNFBPs of information about international compliance with the FATF standards are needed.
Suspicious transaction reporting (R.16)	<ul style="list-style-type: none"> <li>• Active measures should be taken to increase the quantity and quality of STR reporting from the DNFBPs. This will require systematic and continued outreach and improved guidance on suspicious transaction reporting – especially to DNFBPs that are not organized within SROs to overcome existing habits and to</li> </ul>

	<p>ensure that all service providers are aware of their responsibilities.</p> <ul style="list-style-type: none"> <li>• A clear legal basis for the obligation to report suspicious transactions relating to the financing of terrorism should be established.</li> </ul>
Regulation, supervision and monitoring (R.17, 24-25)	<ul style="list-style-type: none"> <li>• The authorities should review the tendering process for Gaming establishments to ensure that protections against the involvement of criminal associates is strong enough.</li> <li>• Improved feedback to the DNFBPs should be part of ongoing awareness-raising and education efforts.</li> <li>• Issue guidance on CFT for DNFBPs.</li> <li>• Increase the resources available for supervision of non self-regulated DNFBPs.</li> </ul>
<b>5. Legal Persons and Arrangements &amp; Nonprofit Organizations</b>	
Nonprofit organizations (SR.VIII)	<ul style="list-style-type: none"> <li>• The authorities need to conduct a review of the sector in order to be fully compliant with the FATF recommendations. That examination should look broadly at increasing the transparency in the sector, strengthening the legal basis for supervision and oversight over NPO fundraising.</li> <li>• Authorities should consult widely with the sector on ways of improving transparency and reporting.</li> </ul>
<b>6. National and International Cooperation</b>	
The Conventions and UN Special Resolutions (R.35 & SR.I)	<ul style="list-style-type: none"> <li>• Ratify and fully implement the Palermo Convention</li> <li>• Fully implement Vienna and UN Convention on FT</li> <li>• Provide for domestic legislation implementing the UN Resolutions</li> </ul>
Mutual Legal Assistance (R.32, 36-38, SR.V)	<ul style="list-style-type: none"> <li>• More detailed and precise statistics must be kept to track ML/FT cases.</li> <li>• Consideration should be given to asset-sharing provisions.</li> </ul>
Other Forms of Cooperation (R.32 & 40, & SR.V)	<ul style="list-style-type: none"> <li>• More detailed and precise statistics must be kept to track ML/FT cases.</li> </ul>

#### IV. AUTHORITIES' RESPONSE TO THE ASSESSMENT

34. The Hungarian Authorities thank the IMF/WB team and the expert of MONEYVAL for the assessment and were in broad agreement with its findings.

35. The Hungarian authorities consider that the main message of the 2005 AML/CFT assessment is that the overall AML situation in Hungary is favorable:

*“The Hungarian authorities have made significant progress in strengthening their AML regime in the four years since the last assessment... the legislative framework for AML is in place... Financial institutions' compliance with the AML requirements is well-supervised and they are well aware of their obligations under the Act.”*

36. The Hungarian authorities appreciate the recommendations made by the IMF/WB team and the expert of MONEYVAL and they are committed to consider seriously these recommendations in addressing deficiencies in the legislative framework. This will take place as soon as the final version of the EU's new AML/CFT directive will be available for implementation, although they are ready to commence the work concerning the most important issues in the near future.

37. 2.1. The Hungarian authorities are of the opinion that the inevitably short comments in the report might be sometimes misleading as to the real level of compliance and awareness of the Hungarian society. Just to take a typical example: concerning cash couriers the assessors generally states in the report that there is no possibility to stop/restrain or seize in the case of ML/FT. In full this remark would be as follows: There is no possibility to stop/restrain or seize in the case of ML/FT, *if there is no suspicion as regards the criminal origin of the assets carried by the cash courier.* In our view it is quite logical that when the customs officers have no reason for suspicion, they do not undertake any coercive action.

38. 2.2 The assessment of the Hungarian authorities regarding the legislative framework for CFT , especially the legal obligation to report FT suspicious transactions differs considerably from that of the assessors.

39. As for the implementation of the UNSCRs on CFT issues we would like to emphasize that the relevant EU regulations on restrictive measures adapted the mentioned resolutions. These EU regulations are directly enforceable and applicable in Hungary being a member state of the EU since May 1, 2004. Thus, the general legislative framework is in place and there is a need to complete in details the related implementing measures.

40. With respect to suspicious transaction reporting we would like to mention that the Hungarian authorities are of the opinion, the AML Act's preamble gives the legal ground for the reporting STRs on data, facts and circumstances indicating terrorist financing. Although the preamble does not provide a solid legal basis, but the reporting system is effective in practice, and e.g., the Recommendation No.1/2004 of the HFSA defines guidelines for the service providers.

41. Furthermore it is well known that Hungarian financial service providers (banks, insurance companies, investment funds, etc.) have been heavily investing in FT screening software. It is also acknowledged in the assessment report that reports on FT suspicion are regularly sent to the FIU and there were two cases in 2004 when due to suspicion of FT assets were frozen. It is equally well known that the constantly updated EU terrorist list is publicly available on the homepage of the Hungarian Financial Supervisory Authority (HFSA) and all financial service providers are daily updating their screening systems accordingly. Furthermore the HFSA approves all AML/CFT internal rules of the financial service providers and without a comprehensive reporting system including FT reporting there is no chance to obtain an approval that is an essential element of a license. All on-site inspections of the HFSA focus on this subject.
42. However this and many more measures are summarily assessed as “No legal obligation for reporting STRs related to FT”.
43. Our point is that in the case of a well-functioning AML/CFT system accepted as such also by the assessors the very existence and the functioning of the system should be taken into account when assessing if there was a legal basis for the establishment of the system.
44. Finally, the high level of compliance of the Hungarian AML/CFT system with the international standards indicates the commitment of Hungary to fight against money laundering and suppressing the financing of terrorism. The achievements of Hungary serve as a well-grounded basis for further development of the AML/CFT system in place.