MNE (Ministry for National Economy) Decree No 21/2017. (VIII.3.)

of the Minister for National Economy

regarding the mandatory substantive elements of the internal code to be prepared pursuant to Act LIII of 2017 on Preventing and Combating Money Laundering and Terrorist Financing and Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Ordered by the European Union and the UN Security Council

Acting upon the authorisation set out in Section 77(1) of Act LIII of 2017 on Preventing and Combating Money Laundering and Terrorist Financing and in my competence set out in Section 90.14 of Government Decree No 152/2014. (VI. 6) on the tasks and competences of the members of the Government, as well as upon the authorisation set out in Section 17(2) of Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Ordered by the European Union and the UN Security Council and in my competence specified in Section 90.1 of Government Decree No 152/2014. (VI. 6) on the tasks and competences of the members of the Government I order the following:

Section 1. The internal code specified in Section 65(1) of Act LIII of 2017 on Preventing and Combating Money Laundering and Terrorist Financing (hereinafter referred to as: "AML Act") to be prepared by the service provider in order for the performance of the tasks required for meeting the obligations set out in the same shall contain the following mandatory substantive elements:

a) aspects to be considered when establishing the data, facts and circumstances that signal money laundering or terrorist financing,

b) the internal rules of procedure for client identification, the certifying check of identity, identification of the beneficial owner, the activity for determining the purpose and planned nature of the business relationship, continuous monitoring of the business relationship and keeping the data and instruments relating to the business relationship up to date (hereinafter referred to as: "client due diligence"),

c) the data, facts and circumstances that give rise to doubt as regards to the authenticity or appropriateness of the client identification data or the identity of the beneficial owner,

d) the cases of simplified an enhanced client due diligence, as well as the scope and internal rules of procedures of the measures to be taken,

e) at service providers which intend to exercise the right set out in Section 22(1) of the AML Act, the internal rules of procedure for adopting the results of client due diligence measures performed by another service provider,

f) the rules and form of the internal procedure for reporting to the authority operating as financial intelligence unit, as well as the standard form for making the report set out in Section 30(1) of the AML Act to be sent to the designated person specified in Section 31(1) of the AML Act,

g) the name, position and contact details of the designated person specified in Section 31(1) of the AML Act,

h) the internal rules of procedure for the suspension of transactions,

i) the internal regulations relating to the processing, retainment and protection of the data generated in connection with the client due diligence and/or the report, as well as the employees concerned,

j) regulations relating to the training of employees getting in contact with clients, as well as their participation in training programmes for preventing and combating money laundering and terrorist financing,

k) the rules of procedure and conduct applicable in the course of client due diligence for employees getting in contact with the client,

l) presentation of the internal control and information system facilitating client due diligence, reporting and keeping of the records,

m) for the service providers specified in Section 2 of the AML Act, the internal rules of procedure for identification of the principal and the beneficiary, checking, keeping records of and transmitting the data and detecting and managing transfers of funds received with lacking or deficient data in regards to the implementation of Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006, and

n) the name and position of the person specified in Section 3.35 of the AML Act, as well as the specification of his/her competences in relation to decisions for influencing the service provider's exposure to the risk of money laundering and terrorist financing.

Section 2. The internal code specified in Section 3(4) of Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Ordered by the European Union and the UN Security Council (hereinafter referred to as: "RM Act") to be prepared by the service provider in order for the performance of the tasks required for meeting the obligations set out in the same shall contain the following mandatory substantive elements:

a) type and operation of the screening-monitoring system for the implementation of the financial and asset-related restrictive measures ordered by the European Union and the UN Security Council specified in Section 3(6) of the RM Act, as well as the internal rules of procedure of the screening performed based on the lists of persons affected by financial and asset-related restrictive measures,

b) availability of the lists of persons affected by financial and asset-related restrictive measure ordered by the European Union and the UN Security Council to be applied by the service provider;

c) the internal rules of procedure for reporting to the authority in accordance with Section 4(1) of the RM Act,

d) name, position and contact details of the person designated in accordance with Section 4(2) of the RM Act,

e) the rules of procedure and conduct to be applied by employees involved in the implementation of financial and asset-related restrictive measures ordered by the European Union and the UN Security Council, and

f) rules of operation of the internal control system related to the implementation of financial and asset-related restrictive measures ordered by the European Union and the UN Security Council.

Section 3. The service provider shall determine the scope of the measures contained in the internal code to be prepared pursuant to Section 65(1) of the AML Act based on the nature and amount of the business relationship or the transaction order and the circumstances of the client (on a risk-sensitivity basis), using the internal risk assessment prepared in accordance with the provisions of Section 27 of the AML Act.

Section 4. The service provider shall establish the internal rules of procedure for the risk-sensitivity-based performance of the client due diligence specified in Section 1(b) based on the following risk factors:

a) purpose of the business relationship or transaction order;

b) nature and amount of the business relationship or transaction order;

c) duration of the business relationship, frequency of the transaction order;

d) direction of the business relationship or transaction order.

Section 5. The service provider shall establish the cases and internal rules of procedure of the simplified client due diligence specified in Section 1(d) based on the factors relating to low risk listed in *Annex 1.*

Section 6. The service provider shall establish the cases and internal rules of procedure of the enhanced client due diligence specified in Section 1(d) – unless otherwise provided for by law – based on the factors relating to higher risk listed in *Annex 2.*

Section 7. This Decree shall enter into force on the day after its promulgation.

Section 8. The purpose of this Decree is to ensure compliance with Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the

financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

Mihály Varga
Minister for National Economy

Annex 1 to MNE Decree No .../2017. (.... ...)

Factors relating to low risk

1. Client risk factors:
   1.1. companies whose securities have been introduced to the stock exchange and which are subject to disclosure requirements ensuring the appropriate transparency of beneficial ownership;
   1.2. administrative authorities and business associations in majority state ownership;
   1.3. clients having their place of residence in a geographic area signalling low risk according to Section 3.

2. Risk factors related to products, services, transactions or service channels:
   2.1. insurances belonging to the life insurance sector solely of a risk insurance character (for the event of death) with a low premium not having any surrender value or service triggered upon expiry;
   2.2. pension insurances, provided that they do not include a redemption clause and the insurance policy cannot be used as a security;
   2.3. a pension benefit scheme providing pension benefits for employees, where contributions are paid via deduction from wages and the rules of the scheme do not allow for the assignment of members' shares in the system;
   2.4. financial products and services providing certain limited services for certain types of clients in order to improve their access to financial services for the purpose of financial integration;
   2.5. products, in relation to which the risk related to money laundering and terrorist financing is managed via other measures such as the restriction of electronic money or the transparency of ownership (e.g. certain types of electronic money).

3. Geographical risk factors:
   3.1. Member States of the European Union;
   3.2. third countries having effective systems in place in regards to combating money laundering and terrorist financing;
   3.3. third countries in which corruption or the number of other punishable acts is low according to at least the World Bank's index evaluating countries' government systems and/or other sources, in particular the evaluation reports recognised by international organisations;
   3.4. third countries whose regulations relating to combating money laundering and terrorist financing are in accordance with the reviewed FATF recommendations and which apply these regulations effectively.

Annex 2 to MNE Decree No .../2017. (.... ...)

Factors relating to higher risk

1. Client risk factors:
   1.1. the business relationship takes place in unusual circumstances;
   1.2. clients having their place of residence in a geographic area signalling high risk according to Section 3;
   1.3. trusts;
   1.4. companies having bearer shares or whose shareholder is represented by a nominee;
   1.5. undertakings processing cash operations that are considered by the supervisory authorities to be of a significant level;
   1.6. the company's ownership structure seems unusual or overly complex considering the nature of its business activity;

2. Risk factors related to products, services, transactions or delivery channels:
   2.1. private banking services;
   2.2. products and transactions where the client was not identified;
   2.3. non-personal business relationships and transactions lacking certain security measures, such as the use of electronic signatures or electronic identity documents;
   2.4. payments received from unknown third parties or third parties not involved in the business relationship or transaction order;
   2.5. 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;

3. Geographical risk factors:
   3.1. countries not having effective systems in place in regards to combating money laundering and terrorist financing;
   3.2. countries in which corruption or the number of other punishable acts is high according to at least the World Bank's index evaluating countries' government systems and/or other sources, in particular the evaluation reports recognised by international organisations;
   3.3. countries falling under the scope of sanctions imposed by the EU or the UN Security Council;
   3.4. countries that are publicly known to finance or support terrorist activities or in whose territory known terrorist organisations operate.