

**Recommendation No. 6/2019 (IV.1) of the Magyar Nemzeti Bank**  
**on information required by financial institutions and their intermediaries on the source of funds, on the presentation of documents regarding the source of funds to verify the submitted information, on facilitating the recognition of data, facts and conditions that serve as the basis of reports, and on actions related to the reporting of deals of high risk**

**I. Purpose and scope of the Recommendation**

The purpose of the Recommendation is to identify the requirements of the Magyar Nemzeti Bank (hereinafter: MNB) about information required by financial institutions and their intermediaries on the basis of legal regulations, on the source of funds, on the presentation of documents regarding the source of funds to verify the submitted information, on facilitating the recognition of data, facts and conditions that serve as the basis of reports, and on actions related to the reporting of deals of high risk, in order to improve the predictability of the operation of law, to promote the uniform application of legal regulations, and to facilitate the compliance with international and domestic standards related to preventing and combating money laundering and terrorist financing.

By publishing this Recommendation, the MNB wishes to mitigate the risks related to money laundering and terrorist financing in cash transactions of high amounts (over HUF 10 million) carried out by financial institutions, in line with the statements in the National Risk Assessment reviewed in 2017 and the European Commission's supranational risk assessment. The extensive application of cash in financial transactions and deals presents a high level of risk in the respect of both basic crimes and crimes related to money laundering and terrorist financing.

The MNB wishes to support the activities of financial institutions and their intermediaries (hereinafter together: service providers) subject to Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing (hereinafter: AML Act) by providing in a uniform structure the signs that warn of unusual transactions identified so far on its professional horizon, and that affect the operation of service providers.

The Recommendation defines clear actions for service providers in connection with further steps they should take in the case of high-risk transactions in addition to reporting them.

In the development of the Recommendation, the MNB considered NGM Decree 21/2017 (VIII. 3.) on the Compulsory Elements of Internal Rules to be produced on the basis of Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing (AML Act) and Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Imposed by the European Union and the UN Security Council, - as well as MNB Decree 45/2018 (XII. 17.) on the Detailed Rules concerning the Implementation of the Act on the Prevention and Combating of Money Laundering and Terrorist Financing, as Applicable to Service Providers Supervised by the MNB, and Concerning the Minimum Requirements for the Development and Operation of the Screening System under Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Imposed by the European Union and the UN Security Council. (XII. 17.) MNB resolution.

The Recommendation addresses service providers under the supervision of the MNB: credit institution; financial service provider; occupational pension service provider; voluntary mutual insurance fund; service provider accepting and delivering international post office transfers; trustee.

This Recommendation does not fully refer back to legal regulations when defining the principles and expectations, but, of course, the parties affected by the Recommendation are still obliged to comply with related legal regulations.

## **II. Practices generally expected in the course of obtaining the source of funds**

1. The MNB considers that the provision of information regarding the source of funds and the presentation of documents regarding the source of funds to verify this information are inseparable and uniform actions.
2. If the information regarding the source of the funds is not provided or the related documents are not presented, the MNB - in line with the requirements of the AML Act - expects that the establishment of the business relation and the performance of the transaction are refused, or, in the case of an already existing business relation, they are terminated. In addition, if the customer's due diligence data is available - because of the already existing business relation or the attempted transaction - the MNB requires the sending of a notice to the financial information unit, too, in addition to the above.
3. In the course of obtaining information on the source of the funds, the MNB expects the service provider to collect data on the legal origin of the funds involved in the transaction, too. The service provider shall process and store the document that certifies the source of funds according to the valid data protection regulations, only to the extent required for the completion of its tasks related to the preventing and combating of money laundering and terrorist financing. Certifying document may be for example the following: contracts related to inheritance, compensation, civil legal relationship, or other official documents with the specification of related rights, or a wage certificate originating from employment, wage certificate related to foreign service, other income certificate, or certificates related to exchange rate profits, prizes or dividends. If necessary, the service provider should ask for additional information.
4. In the collection of information about the source of funds, the MNB expects the service provider not to accept any information - presented as the source of funds - which does not refer to the *origin of funds*, but to the *purpose of use* (this can be for instance an „investment“, „purchase of real estate“, „other various uses of business nature“), or refers to the customer's *business activities* (e.g. „operates a guest house“, „sells goods on the wholesale market“, „involved in forwarding“, „owns a restaurant“), therefore obviously cannot substitute the information on the source of funds.
5. In the opinion of the MNB, the mere fact that the funds come from savings is not enough to certify the source, considering the fact that it does not prove the legal origin of the amount behind it.

If the customer refers to savings when information is collected on the source of funds, the MNB expects the service provider to obtain additional data to find out what legal activity performed by the customer resulted in the saving of funds.

6. The service provider shall handle and store the document that certifies the legal source of funds according to the valid data protection regulations, only to the extent required for the completion of its

tasks related to the prevention and combating of money laundering and terrorist financing. The MNB considers, among others, the presentation of the following documents suitable, if they are logically related to the information, and contain the customer's name, especially the following:

- final judicial or official decision not older than 5 years (e.g. grant of probate);
- official certificate not older than 5 years (e.g. from a land or real estate administration body);
- other public document not older than 5 years, or a fully conclusive private document (e.g. on the sale or donation of a real estate or car),
- payment account statement (bank account statement) and cash withdrawal receipt not older than 3 years (if the customer is not able to present a payment account statement - bank account statement - because he does not have any, then a cash withdrawal receipt);
- certification of a company organising gamble, not older than 1 year, about a prize;
- the employer's certificate about wage, dividend, prize, not older than 6 months;
- a Cash Declaration Form to be filled in when entering the area of the European Union, not older than 6 months  
(which contains the personal data, the data of the owner of the cash, data on the cash, the origin and the planned use of the cash, and on its transport).

7. If the documents indicated in point 6 are not available, the MNB - for the certification of up to HUF 100 million - accepts a customer statement in a fully conclusive private document, too, about the source of the funds and on the reason why the documents listed in the above points are not available.
8. The MNB considers the compliance with the provisions on the clarification of the source of funds achieved when the service provider officially knows about it, even without requesting data. Official knowledge means cases when the source of the funds were managed by the service provider earlier, too, and this fact is proven, or the service provider has authentic documentation about the background.
9. The MNB finds it necessary that the service provider always compares the obtained data with other data available on the customer. Should there be any doubt about their true or authentic nature, the MNB expects the service provider to immediately report the transaction to the financial information unit, and record the submission of the report in a document.
10. In addition to making the report specified in point 9, the MNB expects the service provider not to establish a business relation and not to perform the transaction - without violating the prohibition of disclosure - or to terminate the already existing business relation.

### **III. Facilitation of the recognition of the data, facts and conditions that serve as the basis of the notice**

11. The MNB expects the service provider to apply and publish warning signs to its employees, in order to facilitate the recognition of data, facts and conditions that serve as the basis of the notice.
12. The annex to the Recommendation contains the list of signs warning about unusual transactions that are considered important by the MNB and that affect the scope of operation of the service provider subject to the AML Act. The MNB expects the service provider to take the presented signs into consideration in the course of its internal risk evaluation and related filtering and reporting practice. The

list is not complete, in addition to the cases included in the list, the service provider has to apply other signs, too, based on its own risk assessment, during its screening and reporting practice.

13. At the request of the supervisory authorities, the service provider shall explain why it did not make a report, in spite of the warning sign in the annex to the Recommendation.
14. The MNB expects the service provider to indicate it to the MNB that because of the new type of unusual transactions - that are mandatory to report - detected by it, the list in the annex of the Recommendation should be modified.

#### **IV. Actions related to transactions of high risk**

15. The MNB expects the service provider to examine - in a documented way - the need for the termination of a business relation, when - within one year of the last report - additional four reports were made about a customer, or the total amount of the transactions included in the reports related to the customer exceed HUF 500 million, or when the financial information unit informed the service provider that the termination of the business relation did not threaten the conduct of the analysing and evaluating activity. The service provider should refrain from the above examination if the financial information unit determined that the analysing and evaluating activity should be conducted in parallel with the maintenance of the business relation.
16. The MNB requires the service provider to set up a committee to decide on the basis of the examination carried out according to the conditions specified in point 15 whether the business relation can be maintained, and the members of the committee should represent at least business and control areas.
17. The MNB finds it a good practice that the members of the committee mentioned in point 16 are selected from employees managing various organisational units of the service provider. The manager appointed on the basis of Section 63 (5) of the AML Act should be a member of committee in each case.
18. It is not mandatory to set up a committee when the staff number of the service provider is less than 50. In this case, the MNB finds it a good practice that the manager appointed according to Section 63 (5) of the AML Act decides alone on the maintenance of the business relation, as a result of the inspection conducted on the basis of the conditions specified in point 15.
19. The decision on the maintenance of the business relation shall be made in writing within 30 days of the notice behind it or of the signal from the financial information unit. The decision shall contain the opposite opinion of the minority, too, and their reasons, and all the conditions underlying the decision.
20. Within 1 year of the previous decision, the MNB expects the service provider to summon the committee and make a decision again, if the business relation was not terminated on the basis of the previous decision.
21. The MNB expects the service provider to assess before the establishment of the customer relation what volume of cash turnover is planned by the customer. If, during the establishment of the business

relation, the customer says he is planning to make a cash turnover of HUF 100 million or more in a year, the establishment of the business relation requires the approval of the committee indicated in point 16.

22. In the case of already existing business relations, the MNB expects the service provider's committee mentioned in point 16 to make a decision every year about the need for the maintenance of customer relations with a cash turnover over HUF 100 million in the year before the relevant year. The service provider shall carry out his review first within 90 days of the publication of this Recommendation, and then until January 31 of each year, in a documented way.
23. The MNB expects the service provider to keep the documents related to the examination and the decision for eight years, according to the valid data protection regulations, in line with the rules of the AML Act on the preservation of data.

## **V. Final provisions**

24. This Recommendation is a regulatory instrument issued within the meaning of Article 13 (2) i) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, with no binding force for the supervised financial organisations. The contents of the Recommendation issued by the MNB explain statutory requirements, the principles and methods proposed for application based on the procedural practices of the MNB, and the prevailing market standards and practices.
25. In line with the general European supervisory practice, compliance with the Recommendation among the financial organisations subject to the MNB's supervision shall be monitored and assessed in the course of the MNB's control and monitoring activities.
26. The MNB advises the relevant organisations that they are permitted to incorporate the contents of this Recommendation into their internal regulations. In such cases, the financial organisation is entitled to state that the provisions set out in its regulations comply with the relevant MNB Recommendation. If the financial organisation wishes to incorporate only certain parts of the Recommendation into its internal regulations, it should refrain from referring to the Recommendation or limit such references to the parts transposed from the Recommendation.
27. The MNB expects the affected financial organisations to apply this Recommendation as of 1 May 2019.

Dr. György Matolcsy,  
Governor of the Magyar Nemzeti Bank

**Annex to Recommendation No. 6/2019 (IV.1.) of the Magyar Nemzeti Bank**

**CONSIDERATIONS FOR THE RECOGNITION OF UNUSUAL TRANSACTIONS**

**The purpose of this annex is to facilitate the implementation of the reporting obligation specified in Section 30 of Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing ( AML Act).**

**1. Unusual cash transactions**

- 1.1. Deposit or withdrawal of an unusually high amount of cash by a natural person, especially when that is not compatible with the customer's profession.
- 1.2. A sudden and significant increase in cash deposits or withdrawals in the case of either natural persons, or economic associations or other organisations.
- 1.3. Customers make several deposits of relatively small amounts, but these deposits together add up to a significant amount.
- 1.4. Frequent exchanges of various currencies.
- 1.5. Cash movements of high amounts on a previously inactive account.
- 1.6. Customers who arrive together, carry out cash or foreign currency transactions of high amounts at the same time, in the same bank.
- 1.7. Regular cash transactions right below the identification value limit.
- 1.8. Prompt cash withdrawal and deposit without actual movement of cash, in a way that the transactions affect the accounts of multiple customers.
- 1.9. Regular deposits of high amounts, so called "payments in bags".

**2. Unusual transactions in connection with payment accounts**

- 2.1. The customer has multiple payment accounts, but his business activities do not justify it, and transfers are often made among the payment accounts without rational reasons.
- 2.2. The movement of funds on a payment account managed for an economic association or other organisation does not refer to any business activity, but significant amounts are credited or transferred to the payment account.
- 2.3. Business activity is carried out on a natural persons' retail bank account.
- 2.4. The movement of funds on a payment account managed for natural persons is not compatible with the customer's income and previous transacting habits.
- 2.5. Significant amounts are deposited to the same account by multiple persons.
- 2.6. Several people transfer smaller amounts, perhaps regularly, to the same account, but these transfers together add up to a significant amount. The credited amounts are transferred to a third account.
- 2.7. A large amount of cash is deposited, and it is offered as collateral by the owner of the payment account.
- 2.8. A deposit is made on the account, then the funds are immediately transferred to other accounts.
- 2.9. Significant amounts of VAT refunds are credited continuously to an account of an economic

association.

2.10. The size of the cash turnover of the economic association - based on the account movements - is not in line with the rate of the tax paid.

2.11. The number and the value of transactions suddenly increase on the payment accounts of the customer.

2.12. The activity of the economic association and, in connection with that, the transactions on the payment account change in a way that does not match the profile of the company.

2.13. Frequent changes in the business activities of the economic association may be assumed on the basis of the account turnover data. (It can be seen from the account turnover data that the account owner economic association had contacts with e.g. companies involved in trading with food, but suddenly it has business partners who are involved in trading with IT equipment).

2.14. A large amount of transfer is followed by cash withdrawal on the same day or on the following day.

2.15. The person who withdraws cash from the payment account is accompanied by one or more persons, or other persons are waiting for him in front of the bank.

2.16. The person who withdraws cash from the payment account does not know the purpose and the background of the transactions performed on the account. He does not know anything about the contents of the documents submitted about the sources of deals.

2.17. The person who withdraws cash from the payment account inquires about the completion of the transfer already before the credit is made, in the branch.

2.18. "Chain transfers":

- at the beginning of the transfer chain, an economic association pursuing real economic activities can be found (website, real seat, branches, business partners),
- several economic associations are included in the chain, transfers may be carried out on multiple payment accounts in parallel,
- on the payment accounts of the economic associations in the chain, the credits and debits usually happen on the same day, or within one or two days, in the same or similar amounts,
- the credit comes from the same economic association, and the debit goes to the same economic association,
- From the payment accounts of the economic association(s) that are the last domestic members of the transfer chain, the funds are transferred abroad or withdrawn in cash,
- the economic association that is the last member of the transfer chain is continuously replaced, even monthly or quarterly, while other members of the chain are the same.

2.19. There are no transfers that would refer to normal economic activity on the payment account (e.g. payment of wages, utility bills).

2.20. Significant amounts are deposited in cash to the payment account of an economic association that pursues real economic activities, on behalf of an economic association with a foreign seat.

2.21. Credits of significant amounts are received from payment accounts kept in credit institutions with foreign seats, on behalf of economic associations with foreign seats, as a result of transactions carried out by Hungarian citizens.

2.22. Credits of significant amounts are received from abroad, from an economic association with a foreign seat, and the members or the representatives are Hungarian citizens.

2.23. In a credit institution with a domestic seat, cash deposits are made to a payment account managed for an economic association with a foreign seat, then significant amounts are transferred to payment accounts of economic associations with domestic seats.

2.24. Transactions of high amounts of economic associations with suspended partners, partners

with deleted tax numbers or partners deleted on order (or by economic associations who earlier had relations with such partners), especially when these risky economic associations are regularly exchanged among the suppliers.

### **3. Unusual transactions of economic associations**

- 3.1. The owner and/or senior official of the economic association changes, and the new owner's/senior official's appearance (e.g. homeless people), communication or background and abilities that can be derived from external features are not compatible with the activity of the economic association, and after the replacement of the owner / senior official, the financial activity of the economic association is suddenly transformed.
- 3.2. An economic association whose financial indicators are significantly different from those of similar economic associations, without a rational explanation or reason.
- 3.3. Several deposits are made to the payment account of the economic association on the same day and in different branches.
- 3.4. A payment account on which the transfers completed are not compatible with the account-holder's economic association or its earlier activities, or cannot be rationally justified from business point of view (outgoing and incoming transfers, especially to and from off-shore areas).
- 3.5. A payment account on which a lot of credits of small values are received, or to which cash in small amounts but in high value is deposited, and after that, the whole credited amount is transferred, provided that this activity is not compatible with the customer's earlier activities.
- 3.6. The economic association frequently deposits high amounts of cash, and the balances of the payment accounts are high, but the company does not use any other services.
- 3.7. Unusual transfers of funds between related payment accounts, or on the payment accounts of economic associations which have clear ownership connections, too, in addition to the business relation.
- 3.8. The volume of cash deposits, the performance and the frequency of deposits are not compatible with the activities of the company.
- 3.9. The senior official of the economic association (who is authorised to sign for the company) is a person whose appearance or communication, or background and abilities derived from external features clearly indicate that he is not capable of managing the economic association, especially when the person who has disposition over the payment account is not an employee of the economic association.
- 3.10. One person or group has disposition over the payment accounts of multiple economic associations, and unusual movements of funds can be regularly seen on the accounts.
- 3.11. Transfers under contracts not yet concluded or references to wrong transfers are often made on the account.
- 3.12. A company established with minimum amount of capital has extremely high turnover, or receives a loan of high amount from another financial service provider.
- 3.13. Regularly extended members' loans to the economic association without good reason, if their amounts are unusually high.
- 3.14. An overdraft opened within the day, which is transferred in one amount to closed economic associations that have ownership and financing relations with each other, without real economic contents, and at the end of the day, the amount is returned to the payment account of the economic association that initiated the transfer.



#### **4. Unusual transactions related to investments**

- 4.1. Increased demand for investment services when the legal source of the funds to be invested cannot be certified, or the use of the investment service is not compatible with the business activities of the customer.
- 4.2. Purchase of a larger volume of securities for cash, or purchase in multiple units below the identification value limit.
- 4.3. Purchase, sale, possession of securities without good reason, or under unusual conditions, e.g. the financial situation of the company does not justify the sale.
- 4.4. Sale and purchase of illiquid securities which have no established market rate, or it cannot be checked from public sources, or only with difficulties, or the rate is very volatile, and the transaction or series of transactions do not match the customer's profile.
- 4.5. An order for derivatives, in which the customer, usually against the same group of clients, realizes only profits or only losses on a permanent basis.
- 4.6. Initiation of a transaction that affects a lot of accounts and companies, and does not fit into the customer's profile, and in the case of which orders related to securities also appear in the series of transactions.
- 4.7. Regular transaction orders for loss-making deals, especially when the contact person specifically draws the customer's attention to that.
- 4.8. Issuing of transaction orders initiated in very high volumes, with cash deposit.
- 4.9. Issuing of related transaction orders initiated by multiple customers that can be related to each other (usually economic associations), performance of cross-transactions.
- 4.10. Multiple securities accounts kept by the same customer without good reason, when none of the accounts have high turnover, but the total amount invested is significant.
- 4.11. A customer who holds physical securities of extremely large amounts without good reason, in spite of the fact that he would be able to store the securities in electronic way.
- 4.12. Withdrawal or transfer of income following sales, then issuing a transaction order for a deal of the same or higher volume, after another cash deposit.

#### **5. Unusual loan transactions**

- 5.1. Initiation of the conclusion of a loan/credit agreement against collateral, where the origin of the collateral is not known, or the collateral is not compatible with the financial situation of the customer.
- 5.2. Request for financing by a financial institution, when the source of the customer's financial contribution is not known.
- 5.3. Initiation of the conclusion of a loan/credit agreement in a case when the customer has significant amounts of funds available on other accounts.
- 5.4. Use of funds originating from loans in a way that is not compatible with the declared purpose of the loan.
- 5.5. Loan applications submitted for off-shore companies, or application for a loan secured with promissory notes of off-shore banks.
- 5.6. The purpose of the loan expressed by the customer makes no sense from economic point of view, or the customer offers to give cash collateral for the loan, while he refuses to disclose the purpose of the loan.
- 5.7. The customer purchases deposit certificates and uses them as the collateral of the loan.
- 5.8. The customer secures the loan with cash deposit.

- 5.9. The customer uses cash deposit kept in an off-shore financial institution to get the loan.
- 5.10. The funds received from the loan are unexpectedly directed to off-shore areas.
- 5.11. The customer unexpectedly - without an economic background seen by the service provider - repays the loan or the majority of it.
- 5.12. The loan is repaid by a person with whom the customer had (has) no financial relations.

## **6. Unusual transactions in connection with international activities**

- 6.1. Maintenance of a high account balance that is not compatible with the customer's business turnover, and the transfer of the funds to a foreign country.
- 6.2. A customer who regularly diverts from the ways of payment customary in foreign countries in his foreign trading activities.
- 6.3. A customer who realises a significant volume of cash turnover with countries that are known to be related to the production or trading of drugs, especially when the customer's business profile is different from the economic and trading structure of the given countries.
- 6.4. Transactions affecting "shell" (fictitious) banks, the names of which may be very similar to the name of a large legal financial institution.
- 6.5. Frequent or large-volume deals in which off-shore banks are involved, too, and these deals are not compatible with the known economic activity of the customer.
- 6.6. The customer sends and receives transfers to and from off-shore areas, especially when these transfers have no business reasons, or they are not compatible with the customer's economic activity.
- 6.7. Regularly repeated transfers from a natural person's payment account(s) to offshore areas.
- 6.8 Transfers to or from „OSA” accounts.

## **7. Unusual features originating from the lack or unsatisfactory nature of co-operation**

- 7.1. An economic association that is reluctant to provide complete information on the business objectives of the economic association, on previous bank relations, officials, directors or the place of performing the activities.
- 7.2. A customer who does not co-operate in making sure that the data and documents required in customer due diligence are collected from it.
- 7.3 The customer is not co-operative in the provision of information on the source of funds, or makes statements of dubious contents.
- 7.4. The customer applying for the possible loan is reluctant or refuses to determine the purpose of the loan or the source of repayment, or specifies a questionable purpose and/or source.
- 7.5. A customer who provides minimum or false-looking information, or information that is difficult to check for the bank.
- 7.6. The potential customer is reluctant or refuses to supply references, or the references are impossible to check, or cannot be contacted.
- 7.7. A person who does not indicate his past or present employment in the loan application, even in spite of such a request.

## **8. Unusual features or activities**

- 8.1. A payment account managed for a customer who is located at a place far from the location of the branch, if a branch closer to him would be available, and there is no logical explanation for the selection

of the further branch.

8.2. A customer or a payment account who/which often has cash deposits/withdrawals of large amounts, packed with intact money bands, which were stamped by the bank or by other banks in previous deals.

8.3. The customer almost never comes to the branch, but so-called money couriers deposit money to the customer's payment account.

8.4. The customer suddenly assumes unusually high risks, as opposed to his usual habits.

## **9. Unusual transactions related to life insurance**

9.1. In the case of either natural persons or legal entities, extraordinary deposits or withdrawals, which increase significantly within a short time.

9.2. Cash deposits of high amounts that are not compatible with the customer's profile, in the case of a life insurance tied to investment units.

9.3. Regular deals right below the customer due diligence limit.

9.4. An economic association that is reluctant to provide complete information on the business objectives of the economic association, on previous bank relations, senior officials or the place of performing the activities.

9.5. A customer who provides minimum or false-looking information, or information that is difficult to check for the insurer.

9.6. The customer wishes to deposit money, and insists that the required registration or reporting forms are not filled in.

## **10. Unusual features in connection with money exchange activities**

10.1. The customer possesses cash of unusually high amount, and the quantity of the cash is not compatible with the appearance and behaviour of the customer.

10.2. Regular money exchanges in high amounts.

10.3 The customer is not co-operative in the provision of information on the source of funds, or makes statements of dubious contents.

10.4. Customers, who arrive together, and carry out an exchange of high amount at the same time.

10.5. Deals following each other right below the value limit.

10.6. Exchange of rarely used currency types in high amounts or regularly.

10.7. A customer who is reluctant to subject itself to due diligence.

10.8. The customer initiates money exchange over the value limit, but when he is informed of the customer due diligence obligation, he takes back some of the money, so that the deal would remain right under the specified threshold.

10.9. Exchange of currency of small denomination to larger denomination, or its sale, or the purchase of other currency type at the same time.

## **11. Unusual features in connection with pledge activities**

11.1. Customers who suddenly repay their pledge loans.

11.2. Customers who pledge a large quantity of objects, which generally represent smaller values, but together have a high value, and are usually not bought back.

- 11.3. Customers, whose appearance gives reason to suspect that they are not the real owners of the pledged objects.
- 11.4. The customer's clothes or behaviour is not compatible with the quality and the value of the pledged object.
- 11.5. When identification is requested, the customer withdraws from the deal.
- 11.6. The customer purchases deposit certificates and uses them as the collateral of the loan.
- 11.7. Another person attempts to buy back the pledged object of high value, without a reasonable explanation.

## **12. Possible indicators of suspected VAT fraud of "missing merchant" type**

### **12.1 In connection with the customer**

- 12.1.1. Without any rational reason, the economic association keeps several accounts at a number of domestic and foreign financial service providers.
- 12.1.2. The person authorised to sign for and represent the company has inadequate knowledge on the activities of the economic association represented by him (e.g. he has no information on possible business partners, the expected sales, profits and the number of employees).
- 12.1.3. The person authorised to sign for and represent the company has inadequate knowledge on the products and markets with which and where he claims to be trading, and is unable to give an answer without help to questions asked during the account opening procedure.
- 12.1.4. The occurrence of VAT frauds of "missing merchant" type is usually related to the trade of the following articles and to the following scopes of activities:
  - 12.1.4.1. wholesale trade,
  - 12.1.4.2. all valuable articles that cannot be identified individually, and that are not perishable, and can be transported in large volumes,
  - 12.1.4.3. wholesale trading in food, sugar and sweets,
  - 12.1.4.4. wholesale trading in livestock, meat and meat products,
  - 12.1.4.5. wholesale trading in electronic and other household articles, computers, software, electronic, communications equipment and their parts,
  - 12.1.4.6. labour market services (lending labour),
  - 12.1.4.7. advertising activities, film production and distribution,
  - 12.1.4.8. trading in agricultural products that are not subject to the VAT,
  - 12.1.4.9. trading in steel and other metal products.
- 12.1.5. The turnover on the payment account of the economic association is not compatible with the nature of its activity.
- 12.1.6. The managing director - who is a foreign citizen, and has a foreign permanent address - has no registered address in the country, only data regarding an agent for service of process were reported, and this agent performs this task for several economic associations.
- 12.1.7. The place of residence of the leading official and/or the person who has disposition over the account, the place of the activity and the places of opening the payment account and performing the transactions are in a region other than the seat of the company.
- 12.1.8. The seat of the company is at the address of a registered office service providing company.
- 12.1.9. The same person opens payment accounts on behalf of multiple legal entities at the same time,

or altogether. (The foundation of multiple companies at the same time is typical in the establishment of company networks, therefore the opening of multiple accounts at the same time may be necessary).

12.1.10. The given economic association, and/or other economic associations that can be related to the members, senior officials or actual owners of the economic association are included in the databases that can be found under menu points "Parties with unpaid tax, tax arrears or under judicial execution", or "Suspended tax numbers" or "Tax numbers deleted under sanctions" of the website of the Tax Authority, and they carry out regular transactions of high amounts in connection with their payment accounts (the "missing" merchants usually go hand in hand with VAT frauds related to company chains, and these are not accessible to the tax authority, or tax payers for whom tax deficit was identified, and may be under judicial execution, therefore they are very likely to appear in the databases).

## **12.2. In connection with transactions**

12.2.1. A deposit is made on the account, then the funds are immediately transferred to other accounts.

12.2.2. VAT refunds that are not in line with the volume of the commercial activity.

12.2.3. Cash withdrawals of continuously high amounts.

12.2.4. Sudden increase in the number and total value of transactions.

12.2.5. Change in the commercial activities and the related transactions, that is not compatible with the previous profile of the economic association.

12.2.6. A frequent change in the area of the business activity, based on the account turnover data (on the basis of the turnover data of the payment account, it can be determined that so far they had contacts with companies involved in food trade, but suddenly they have business partners who are involved in the trade of IT equipment).

12.2.7. A transfer is followed by cash withdrawal on the same day or on the following day.

12.2.8. The person who withdraws cash is accompanied by one or more persons, or other persons are waiting for him in front of the bank.

12.2.9. The person who withdraws cash does not know the purpose and the background of the transactions.

12.2.10. The person withdrawing cash inquires about the completion of the transfer already before the completion of the credit.

12.2.11. Chain transfers:

12.2.11.1. At the beginning of the transfer chain, an economic association pursuing real economic activities can be found (website, real seat, branches, business partners),

12.2.11.2. Several economic associations are included in the chain, transfers may be carried out in parallel on multiple payment accounts,

12.2.11.3. On the payment accounts of the economic associations in the chain, the credits and debits usually happen on the same day, or within one or two days, in the same or similar amounts,

12.2.11.4. The credit comes from the same economic association, and the debit goes to the same economic association,

12.2.11.5. From the payment accounts of the economic association(s) that is/are the last domestic member(s) of the transfer chain, the funds are transferred abroad or withdrawn in cash,

12.2.11.6. The economic association that is the last member of the transfer chain is continuously replaced, even monthly or quarterly, while other members of the chain are the same.

12.2.12. There are no transfers that would refer to normal economic activity (e.g. wage payments, utility

bills).

12.2.13. To the account of an economic association that pursues real economic activity:

12.2.13.1. Significant amounts are deposited in cash, in the name of economic associations with foreign seats.

12.2.13.2. Credits of significant amounts are received from payment accounts kept in credit institutions with foreign seats, on behalf of economic associations of foreign seats, as a result of transactions carried out by Hungarian citizens.

12.2.13.3. The transfers are received from abroad, from an economic association of foreign seat, and the members or the representatives are Hungarian citizens.

12.2.14. In a credit institution with domestic seat, cash deposits are made to a payment account managed for an economic association with foreign seat, then transfers are made to payment accounts of economic associations with domestic seats.

12.2.15. Customers with significant cash turnover with suspended partners, partners with deleted tax number or partners deleted.