

Recommendation No. 8/2019. (IV.1.) of the Magyar Nemzeti Bank

on money exchange activities performed by credit institutions directly or through key intermediaries

I. Purpose and scope of the Recommendation

The purpose of the recommendation is to identify the expectations of the Magyar Nemzeti Bank (hereinafter: MNB) about money exchange activities performed by credit institutions directly or through key intermediaries (money exchange offices) (hereinafter together: money changing), and thus to improve the predictability of the application of law, to promote the uniform application of relevant legal regulations, to facilitate compliance with international and domestic standards related to preventing and combating money laundering and terrorist financing, and to assist customer orientation in cases when extremely high margins are applied.

By publishing this recommendation, the MNB wishes to mitigate the risks related to money laundering and terrorist financing in money exchanges of high amounts carried out by credit institutions directly or through key intermediaries, in line with the statements in the National Risk Assessment reviewed in 2017 and the European Commission's supranational risk assessment. The volume of cash used in money exchange presents a high level of risk in the respect of both basic crimes and crimes related to money laundering and terrorist financing.

In addition, it is a recurring problem in money exchange activities that the application of extremely high margins can be observed at major tourist attractions, and this may present a risk for the reputation of the country. In order to facilitate informed decisions, the recommendation says that in the case of EUR and USD exchanges, the applied margins should be exhibited at a place that is clearly visible to the customers, if the margin is over 10%.

In the development of the recommendation, the following acts were taken into consideration: Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Government Decree 297/2001. (XII.27.) on money exchange, Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing (hereinafter: AML Act), NGM Decree 21/2017 (VIII. 3.) on the mandatory contents of the internal regulations to be produced on the basis of Act LII of 2017 on the Implementation of Financial and Asset-related Restrictive Measures Imposed by the European Union and the UN Security Council, (VIII. 3.) Act LII of 2017 on the implementation of financial and asset-related restrictive measures, MNB Decree No. 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 the Act on the Implementation of Financial and Asset-related Restrictive Measures Imposed by the European Union and the UN Security Council. (XII. 17.) (hereinafter: MNB Decree), MNB recommendation 6/2019. (IV.1.) on information required by financial institutions and their intermediaries regarding the source of funds, the presentation of documentary evidence for the purpose of verification of information disclosed relating to the source of funds, the assistance to the recognition of data, facts, conditions behind the reports, and actions for high-risk reports made on high-risk transactions, and MNB recommendation 6/2019 (IV.1.) on the evaluation of money laundering and terrorist financing risks of financial institutions and the definition of related measures .

The recommendation is addressed to credit institutions involved in money exchange activities and entities mediating money exchange activities (hereinafter: money exchange office), (hereinafter together: service

provider).

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. Generally expected practices in the performance of money exchange activities

1. The MNB considers it necessary for transactions reaching or exceeding HUF 50 million that the money exchange office,
according to Section 10 (2) of the AML Act, and based on the risk sensitivity approach, requests information about the source of funds, as well as documentary evidence for the purpose of the verification of the information disclosed regarding the source of funds.
2. In the case of transactions reaching or exceeding HUF 50 million, the MNB expects the money exchange office to request a written application submitted at least 5 days before the planned conclusion of the transaction. In the premises used for the service of customers, the money exchange office shall inform its customers - in an announcement or other form of information - in advance that exchanges reaching or exceeding HUF 50 million shall be concluded with the preliminary approval of the credit institution, and the conclusion of the deal requires a preliminary application.
3. The MNB finds it a good practice when the application mentioned in section 2 contains the following data:
 - The customer's identification data specified in Section 7 (2) of the AML Act;
 - data on the source of the customer's funds;
 - data of the actual owner according to the AML Act (which may be the result of an inquiry, or based on a declaration);
 - data of the politically exposed person according to the AML Act (which may be result of an inquiry, or based on a declaration);
 - subject and amount of planned order;
 - terms of performance (place, time, mode).
4. For the conclusion of the transaction, the MNB expects the money exchange office to obtain the approval of the credit institution mentioned in section 2, in advance.
5. In the case of any doubt about the legal origin of the funds during the examination of the information and the documents related to the source of the funds, the MNB expects the credit institution and the money exchange office to immediately report the case to the authority that acts as the financial information unit.
6. The MNB expects the credit institution and the money exchange office to interpret the emergence of the doubt in the widest possible sense, when HUF 10 million or a higher amount is exchanged. In addition, if the legal origin does not seem to be clear on the basis of the information and the documents on the source of the obtained funds, the conclusion of the transaction shall be refused, and an immediate report should be sent to the authority acting as the financial information unit, as required by the legal regulations.
7. The MNB considers it necessary for the credit institution to perform regular screenings in the money

exchange office, in connection with exchanges that are immediately below the value limits (HUF 10 and 50 million) specified in this recommendation. When multiple money exchanges in amounts not justified by the turnover or the customer profile are identified in the same money exchange office, the MNB considers it a good practice for the credit institution to examine the reasons, and, if necessary, take the necessary steps and review the risks of future co-operation with the intermediary.

8. The MNB finds it important to make sure that the credit institution regularly, but at least weekly screens the visits of the same customer to other money exchange offices of the credit institution, including regular exchanges below the value limits specified in this recommendation (HUF 10 and 50 million).
9. The MNB finds it necessary that in the contract signed with the money exchange office, the credit institution
 - when the legal regulations regarding the prevention and combating of money laundering and terrorist financing, or the financial and asset-related restrictions, or the operation of the screening system - presents among the reasons for immediate termination the cases when the tasks related to the prevention and combating of money laundering and terrorist financing are not observed, including cases when the money exchange office did the following:
 - did not ask for the preliminary approval of the credit institution for an exchange transaction of HUF 50 million or over, and did not obtain any information on the source of the funds, or did not ask for the presentation of documents indicating the source of funds, to verify the above information;
 - did not initiate a stronger procedure for the customer at the time of the first money exchange transaction of HUF 10 million or over;
 - in the case of additional money exchanges of HUF 10 million or over by the customer under the stronger procedure, the office did not obtain any information on the source of the funds, or did not ask for the presentation of documents indicating the source of funds, to verify the above information;
 - although in the examination of the information and the documents about the source of the funds the office had doubts about the legal origin of the funds on multiple occasions, and/or did not find the certification of the funds acceptable, it did not report it immediately to the authority acting as financial information unit, for the management of the detected risk;
 - it carries out money exchanges just below the value limits specified in this recommendation (below HUF 10 and 50 million), which, as a result of the identification of the risk factors, serve the avoidance of the stronger procedure or the action that requires management decision;
 - it fails to meet its immediate reporting obligation.
10. The MNB finds it a good practice that the credit institution applies the possibility of immediate termination against the money exchange office that commits a serious or repeated infringement.
11. The MNB expects the credit institution to examine the following issues in the course of the inspections conducted at the money exchange office - in line with the valid data protection regulations:
 - whether the money exchange office subjected the customer - who exchanged money in an amount of HUF 10 million or more - to the stronger procedure specified in the AML Act and in the MNB Decree;
 - whether, in the case of any additional exchanges of HUF 10 million or more by customers subject to the stronger procedure, the money exchange office collected information on the source of

the funds, in each case and without consideration, including the recording of data required for the identification of the presented document and the essential contents of the document;

- whether it can be assumed that the information regarding the source of the funds originate from a legal source;
- whether the money exchange office performed its immediate reporting obligation in the necessary cases.

12. The MNB expects the service provider - in its premises open to customers, in the list of exchange rates, or at the same place as the list of exchange rates, in a way that attracts attention, in Hungarian, English and German languages - to exhibit the percentage of the difference between the sell and buy rates of the listed EUR and USD, calculated at the time of listing, compared to the buy rate, if the margin reaches or exceeds 10%. The percentage rate shall be indicated with at least one decimal, under the names "marzs", "margin" or "marge".

III. Final provisions

13. 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 reflect statutory requirements, the principles and methods proposed for application based on the procedural practices of the MNB, and the prevailing market standards and practices.

14. 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.

15. 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.

16. The MNB requires the application of the requirements specified in points 9-11 of this recommendation as of 1 September 2019, and requires the application of the requirements specified under the rest of the points as of 1 May 2019,

Dr. György Matolcsy,
Governor of the Magyar Nemzeti Bank