

BIANNUAL REPORT
2010
Hungarian Financial Intelligence Unit
Central Criminal Investigation Bureau of
the
Hungarian Customs and Finance Guard

The present document is the Biannual Report of the Hungarian Financial Intelligence Unit of the Central Criminal Investigation Bureau of the Hungarian Customs and Finance Guard (hereinafter referred to as HFIU) relating to the first 6 months of the year 2010. The HFIU has prepared this Biannual Report to comply with the obligation stipulated by Article 23 paragraph (10) of Act no. CXXXVI of 2007 on the prevention and combating of money laundering and terrorist financing (hereinafter referred to as AML/CFT Act) HFIU at the same time meets its publication obligation stipulated in Article 29 paragraph (5) of the AML/CFT Act by providing information on statistic data it collects. In addition to fulfilling legal obligations stipulated in the AML/CFT Act, the Biannual Report also provides a concise, general summary of the system in place against money laundering and the functioning of HFIU, describes the electronic reporting system, the supervisory activities of the HFIU and aims to assist service providers specified in Article 1 paragraph (1) of the AML/CFT Act (hereinafter referred to as service providers) by providing typology criteria on suspicious transaction reports (hereinafter referred to as STRs).

1. STATISTICAL INFORMATION

During the period 1 January 2010 and 30 June 2010, the HFIU received 3600 reports and data provisions relating to money laundering, terrorist financing and measures aimed at freezing of funds and economic resources (hereinafter referred to as reports). Of these reports 3431 were submitted by service providers under Article 23 of the AML/CFT Act.

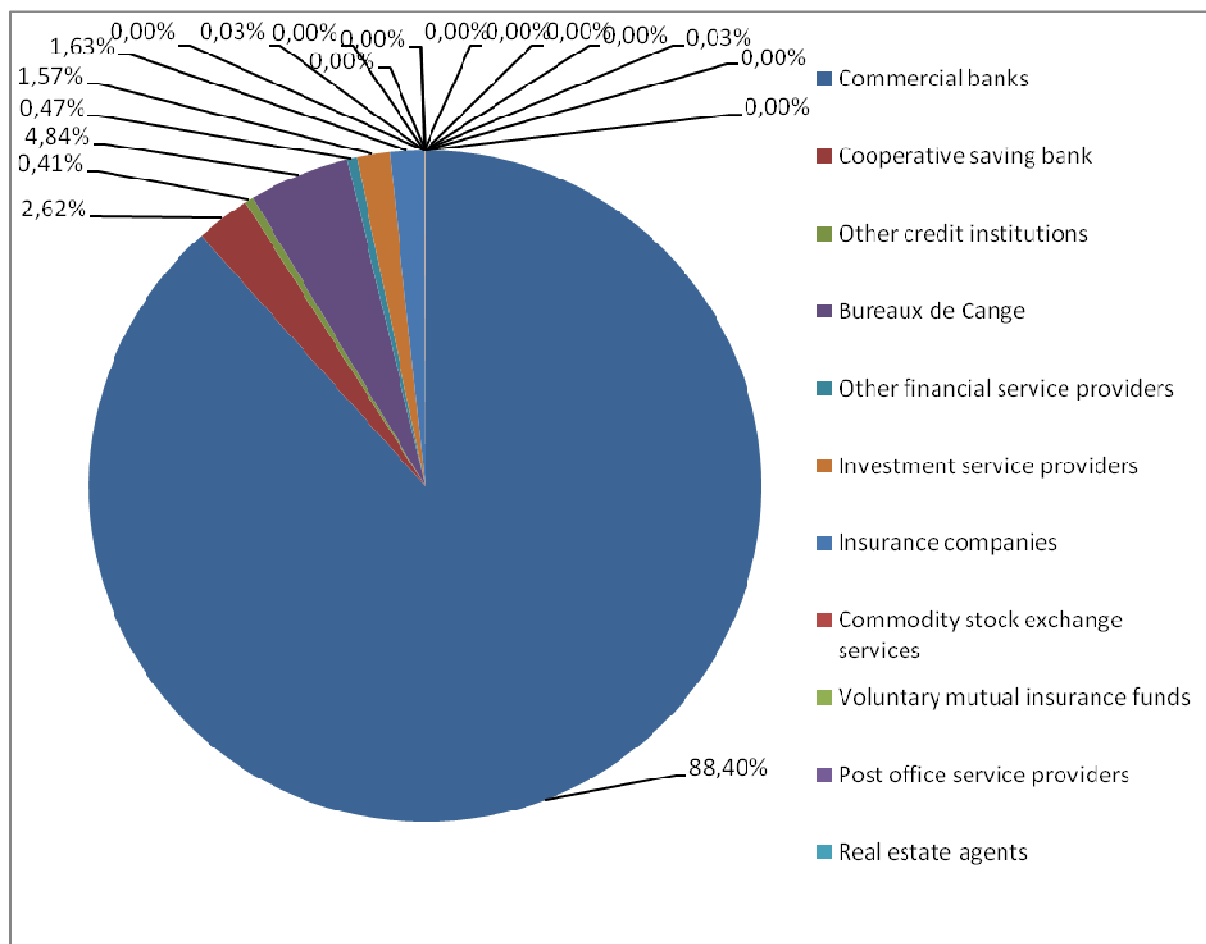
Monthly breakdown of reports received by the HFIU during the period between 1 January 2010 and 30 June 2010 is shown in the table below:

Period	Total (items)
01/01/2010 – 31/01/2010	608
01/02/2010 – 28/02/2010	528
01/03/2010 – 31/03/2010	640
01/04/2010 – 30/04/2010	693
01/05/2010 – 31/05/2010	538
01/06/2010 – 30/06/2010	593
Total	3600

Based on these figures we can conclude that an average monthly amount of 600 reports are received by the HFIU. Most reports were submitted in April, least reports were lodged in February.

Division of reports indicating money laundering and terrorist financing (as much as 3431) as per service providers are contained by the following table.

SERVICE PROVIDERS	January	February	March	April	May	June	Total
Commercial banks	509	438	535	601	446	504	3033
Cooperative saving bank	10	16	14	10	20	20	90
Other credit institutions	0	1	0	12	0	1	14
Bureaux de Change	31	26	31	27	23	28	166
Other financial service providers	2	5	2	1	1	5	16
Investment service providers	18	11	8	4	5	8	54
Insurance companies	6	1	12	16	19	2	56
Commodity stock exchange services	0	0	0	0	0	0	0
Voluntary mutual insurance funds	0	0	0	0	0	0	0
Post office service providers	0	0	0	0	0	0	0
Real estate agents	0	0	0	0	0	0	0
Auditors	1	0	0	0	0	0	1
Accountants	0	0	0	0	0	1	1
Tax experts	0	0	0	0	0	0	0
Casinos	0	0	0	0	0	0	0
Traders with noble metals	0	0	0	0	0	0	0
Goods traders	0	0	0	0	0	0	0
Lawyers	0	0	0	0	0	0	0
Public notaries	0	0	0	0	0	0	0
Total	577,00	498	602	671	514	569	3431



As shown by the table and the chart above, bank reports constitute the majority (88,40%) of reports, as was the case in 2008 and 2009. A significant number (4,84%) of reports were received from money exchange bureaus, investment service providers (2,62%), insurance companies (1,63%) and cooperative savings banks (1,57%). A relatively minor amount or even no reports at all were received from the rest of the service providers.

A total of 99,94% of all reports originate from financial service providers leaving only a minor part (0,06%) to non-financial service providers.

In addition to service providers, HFIU also receives notifications from supervisory authorities stipulated in Article 5 of the AML/CFT Act and, under Article 4 paragraph (3) of Act no. XLVIII of 2007 on the implementation of Regulation (EC) No 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community, customs offices operating at external border crossings of the European Union (including customs offices at Ferihegy International Airport). HFIU also receives requests from foreign FIUs and reports from service providers and agencies maintaining registries of economic resources under Article 10 paragraph (1)-(2)³ of Act no. CLXXX of 2007 on implementation of financial restrictive measures ordered by the European Union, and amendments of other acts (hereinafter referred to as FRM Act¹). Total number of

¹ Under Article 10 of the FRM Act, the service providers falling under the AML/CFT Act and the agencies maintaining registries of economic resources are obliged to report to the agency responsible for the application of measures aimed at freezing funds and financial resources all data, facts, circumstances indicating that subjects of measures aimed at freezing funds and financial resources possess funds or economic resources falling under

notifications, requests and reports of such nature in the first 6 month of the year 2010 amounted to 169. Table below indicates these data transmissions on a monthly basis.

	January	February	March	April	May	June	Total
Information from supervisory authorities	0	8	6	2	1	1	18
Information from border customs offices	0	1	3	3	2	2	11
Requests from foreign FIUs	31	21	29	17	21	21	140
Reports concerning measures aimed at freezing funds and economic resources	0	0	0	0	0	0	0
Total	31	30	38	22	24	24	169

As regards terrorist financing, no report was received by the HFIU as per Article 10 of the FRM Act. In the first half of year 2010 three reports were received from service providers relating to terrorist financing as per the provisions of the AML/CFT Act.

In the first half of year 2010 the HFIU sent 121 requests to foreign FIUs.

In the first half of year 2010 HFIU sent 129 reports to initiate criminal detection (not to be executed by HFIU) and 300 reports to support detections already running.

There were a total of 39 reports sent to initiate criminal procedure as well as 589 reports to support criminal investigations.

Based on Article 24 of the AML/CFT Act there were 30 transactions suspended along with launching a report. Relating to these transactions HFIU initiated criminal investigation in 5 cases, supported criminal procedures in 2 cases and initiated criminal detection (not to be executed by HFIU) in 1 case.

2. STR TYPOLOGY

Typologies below bear characteristics that resulted in the HFIU sending STRs as stipulated by Article 26 of AML/CFT Act in an effective manner in one hand, and supporting the flow of efficient reporting of service providers by taking into account methods of money laundering and terrorist financing of an international scale on the other.

- STRs indicate that a company is likely to transfer amounts almost identical to the amounts credited to its account immediately or within a short time. Slight differences between amounts originate in transfer charges, amounts credited and debited are almost equal within a specific time period. Bank accounts of companies concerned (showing up as a sending or receiving account in the report) are held at the same service provider. An uninterrupted cash withdrawal or cash deposit from or to the bank account of the company involved is a series of transactions. In the course of the chain of transactions certain amounts are transferred from foreign bank accounts as well as from the Hungarian bank account of a company registered abroad. Features indicating

measures aimed at freezing funds and financial resources within the territory of the Republic of Hungary, or that a given transaction may yield an economic gain for a subject of measures aimed at freezing funds and financial resources.

lucrative business activities are missing (e.g. no remuneration payment, no operation costs like phone invoice or public utilities, etc.)

- Natural person withdraws amounts transferred in cash from each company's account, as opposed to normal commercial activities. Account balance is intentionally kept low; amounts credited are withdrawn immediately or very soon. Cash withdrawals often occur on a daily basis or multiple times in a week. Some companies may come up where the natural person in question holds no official position, notwithstanding has the right of disposal over the company's account. Core activities of companies involve construction or cleaning services. Among those completing transfers to the accounts of companies cultural and higher education institutions, foundations, companies (mostly involved in consultancy services, press, media, television broadcasting, movie making, marketing, advertising, event management, IT, web marketing), sports clubs and businesses associated with technical sports and organisation of sporting events.
- A large amount of cash either in Hungarian forints or other currencies is deposited by a natural person onto his/her own or another natural person's account. Amounts deposited are transferred to different companies mostly registered abroad. These transfers are very much likely to be justified by economic operations (payment for goods) that is evidenced by the amount as well as by the fact that it is indicative of a regular business association. Transfer notices indicate movements of goods (e.g. goods, invoice, etc.).
- Doubts also arise as to the factual owner of the account in cases when client initiates regular transfer of high amounts from his/her private account indicative of economic activity. Remarks of such transfers tend to include ground hinting economic activities (e.g. goods, balancing invoice).
- A member and/or senior official of a financial venture (company) authorized to conduct bureau de change activities under Article 3 paragraph (2), section *a*) of Act no. CXII of 1996 on credit institutions and financial ventures is conducting large bureau de change transactions on a regular basis on his/her own private bank account (indicative of commercial activity). Analysis of transactions may give rise to suspicion if multiple currency accounts are used as well as frequent conversions, cash deposits and withdrawals.
- According to the STRs sent by Bureau de Changes as service providers individuals regularly change different foreign currency to HUF and HUF to foreign currency in significant amounts. It can not be determined what kind of activity is in the background and also can not be determined on whose behalf they act.
- STRs also often feature certain data on the deposit accounts of lawyers, which refer to facts, data and circumstances implying that the completed transactions may not be related to the core function of a lawyer's deposit account. On the other hand, the business accounts of lawyers may include such data, which expressly relate to the lawyer's deposit account.
- Certain products (mobile phones, mp3 players, cars in most cases) are advertised for sale on the web and are promised to be delivered upon balancing wholly or partially the total on a bank account provided by the offenders. In return, victims transfer the

money without actually receiving the goods in return as expected. In an effort to reclaim money lost, these victims lodge a claim to their banks so as to be reimbursed stating they are victims of fraud, which is, in most cases, out of question, since, by then, the amount transferred has already been credited to the beneficiary account. Moreover, in many instances fraudsters withdrew these amounts. Domestic credit institution stipulated as a beneficiary in the transfer procedure shall issue a notification in a form of a SWIFT message to the foreign credit institution that ordered the transfer indicating either the fact or the suspicion of fraud or activities indicative of a fraud committed.

- Having signed a unit-linked life insurance contract, contracting party initiates either a partial or full repurchase without eligible business motive.
- Natural persons involved dispose personally over liquid assets and issue transaction instructions in person (fixed deposits, transfers to another private bank accounts of their own).
- Companies registered at low-tax areas having with Hungarian bank accounts receive funds from abroad to their Hungarian bank accounts. The received funds are transferred further to abroad. Usually these accounts are transit accounts. Persons who have the right of disposal of the accounts are typically eastern European individuals from the former Soviet Republic.