KPMG

Financial Risk&Regulation

Supervisory expectations in the financial sector

Newsletter – December 2024

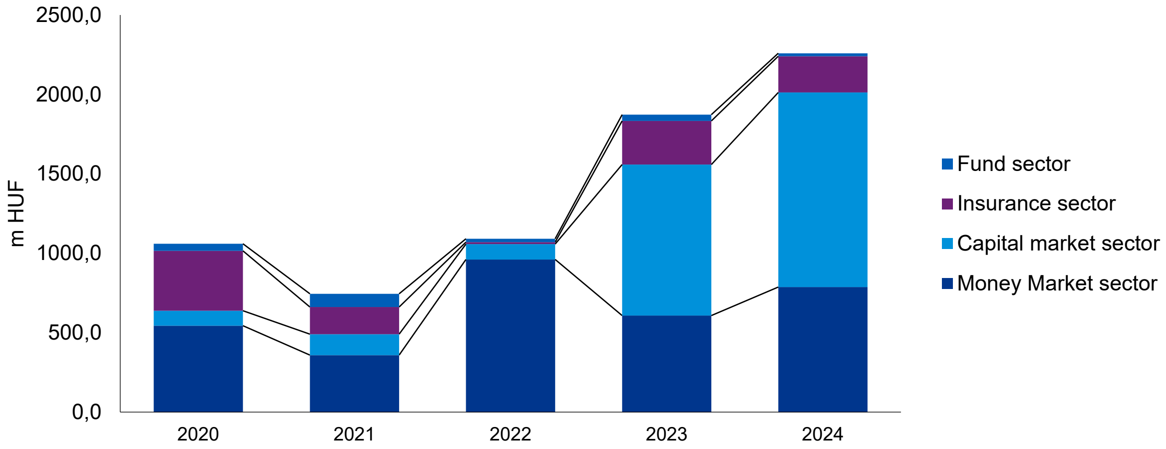
Towards the end of 2024, we have analyzed for the sixth time how fines imposed by the Supervisory Authority (“Supervision” “Authority” or “MNB”) have changed, which sectors have been most affected and what measures the Authority has called on financial sector participants to take. The deficiencies identified include a significant number of failures, shortcomings and breaches of the law related to market manipulation consumer protection, and corporate governance - especially IT and information security. Furthermore, significant fines were imposed for the activity of “placing a financial asset without a commitment to purchase the asset” (which is actually a form of placing the financial asset on the market). In addition, the stakeholders need to place more emphasis on the prevention of corporate governance failures in the future as well.

Supervisory expectations in the financial sector

The Supervision conducts numerous inspections annually in the money and capital markets, insurance, and pension sectors to monitor and verify compliance with EU, governmental, and supervisory regulations. Based on the 2023 annual report, the Supervision issued a total of 2,696 significant prudential enforcement and licensing decisions, including 599 consumer protection rulings. Additionally, 776 decisions were made in the market supervision and issuer oversight areas.

Our analysis of the main focus of inspections and areas of risk for compliance is again this year based on the fines got imposed. Based on the MNB’s annual reports for 2020-2023, we can see how the distribution of fines has evolved across sectors and time series, as well as the values of MNB decisions for 2024 to date.

Compared to previous years, both the number and size of imposed fines increased in 2024, particularly in the capital market sector, where substantial fines were issued. **As of the completion of this newsletter, the fines imposed in 2024 once again exceeded the previous year’s figures, continuing an upward trend for the fourth consecutive year.**



***1. Figure** Distribution of administrative fines between 2020 and 2024 based on MNB decisions*[1]

Topic specific observations

Taking all financial sectors into account, the MNB has identified several weaknesses in its overall, thematic, targeted and post inspections also in the framework of ongoing supervision, the most common were:

- **Market Manipulation:** Several fines were imposed in 2024 for violating legal provisions prohibiting market manipulation. Transactions resulting in the most significant turnover generation and exchange rate influence; orders classified as a starting push and transactions resulting in the setting of the closing price were listed as established reasons. In addition, the imposition of high fines resulted in the imposition of order-stacking orders and orders that significantly increased the trading volume.

  The Supervision maintains a continuous focus on preserving the integrity of market trading. The prohibition of market manipulation and insider trading remains critical, as the interconnectedness of markets can lead to widespread effects, even across national borders. Supervisory sanctions can directly impact individuals, and the behavior underlying these decisions can also fall within criminal offence.

- **Consumer Protection:** Consumer protection fines typically arise from violations related to providing sufficient information for product comparability and supporting informed consumer decisions. However, in 2024, significant fines were imposed for breaches involving the assessment of clients' suitability for investment products and the failure to provide suitability statements with the legally required contents.

  This area holds particular importance since suitability assessments fundamentally shape pre-contractual disclosures, which are crucial for clients to make informed investment decisions.

  A significant consumer protection fine of HUF 48 million was imposed for unfair commercial practices, non-compliance with content and disclosure requirements related to KID2 documents, and failure to comply with complaint management regulations.

  The MNB aims to eliminate excessive fees, improve the handling of customer complaints, and ensure transparency in consumer disclosures. With the expansion of digital services, managing technological risks has become increasingly important, particularly in ensuring the security of online services, enhancing fraud prevention systems, and addressing market challenges posed by fintech companies.

- **Corporate Governance and Risk Management:** The MNB frequently mandates institutions to review and amend their internal regulations to ensure their comprehensiveness and compliance with legal requirements. Many fines also relate to internal control violations, as well as credit risk and liquidity management deficiencies (particularly in areas such as impairment, IFRS 9 compliance, capital adequacy, and capital calculation).

  Developing internal control regulations in accordance with prudent practices and performing internal audits consistently with these regulations are fundamental corporate governance requirements that the MNB regularly emphasizes.

  The IT and information security sector saw frequent fines in 2024, primarily concerning contracts with external service providers, compliance with sector-specific regulations,

1 MNB Decisions between 2020-2024. Magyar Nemzeti Bank (mnb.hu)
2 Kiemelt információkat tartalmazó dokumentumok

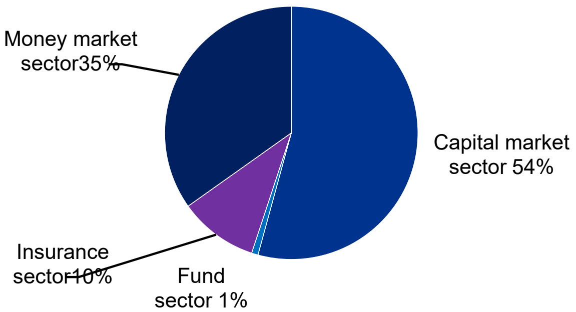
management of outdated systems, and the replacement of equipment lacking manufacturer support.

- **Unauthorized activities:** The Supervision continues to treat this violation with severity. Inspections revealed cases where both natural and legal persons conducted insurance, agency, or debt purchasing activities without authorization or notification, as well as unauthorized lending activities. In these cases, the Supervision imposed market supervision fines and activity prohibitions, sometimes of exceptionally high amounts.

Distribution of fines, trends

The 2024 fines summary report has not yet been published. However, preliminary data from publicly available MNB decisions show that the majority of fines this year also targeted capital market participants, driven by a significant penalty (HUF 667 million) for unauthorized investment services and intermediary activities without proper notification.

This newsletter analyzes decisions published on the Supervision’s website before December 7, 2024. Based on these, a total of HUF 1.225 billion in fines were imposed on the capital market sector, followed by HUF 786.8 million in the banking sector, HUF 228.1 million in the insurance sector, and HUF 18.7 million in the pension sector.



***2. Figure** Distribution of 2024 MNB penalties by sections3*[3]

3 2024-es MNB Határozatok Határozatok és végzések keresése (mnb.hu)

Sector specific observations

Credit institutions and financial corporations

The Supervision instructed several banks and financial corporations to address identified deficiencies and adjust their processes following inspections.

Beyond the key issues highlighted above, it was noted that deficiencies in supervisory data reporting also occurred. However, violations concerning anti-money laundering and counter-terrorism financing, previously a major area of concern, have significantly decreased both in terms of number and severity of fines imposed.

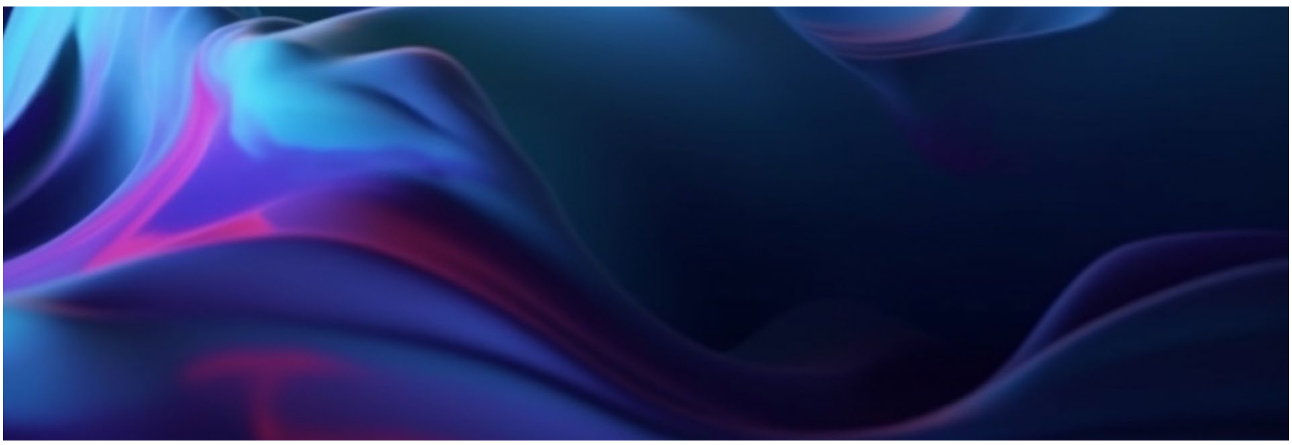
The primary fines imposed on financial institutions in 2024 were related to market manipulation and unauthorized activities. Additionally, multiple fines of lower amounts were issued for breaches of disclosure obligations.

Insurance providers

The Supervision has found shortcomings in several insurers in relation to breaches of the duty to inform the beneficiary and breaches of the law on complaints. In addition, **several significant fines were imposed for breaches of product-related regulations, as well as for breaches of registration, reporting and monitoring systems and electronic communications legislation.**

Pension Funds

Several funds have been fined for the operation of audit committees that do not operate in accordance with their statutes or do not fulfil their statutory audit obligations. In several cases, the Supervision has also found irregularities in the organization of the decision-making or minutes of the board of directors or the general meeting of delegates. In addition, sanctions were also imposed on several funds for failure to provide supervisory data and in relation to IT security requirements.



Highlighted fines

In 2024, the Supervision imposed exceptionally high fines in two cases and filed criminal reports following the investigations.

A HUF 250 million fine was imposed on a capital market participant **for market manipulation violations** between September 2023 and May 2024. The transactions involved could provide false or misleading signals about the demand and supply, daily turnover, and trading volume of shares.

Another significant fine, totaling HUF 667 million, was imposed on three parties (HUF 400 million, HUF 250 million, and HUF 17 million) for **unauthorized investment and intermediary activities**.

The trends in fines described above are largely driven by the general trends affecting the operation of financial institutions in general: increasing digitalization and need for information security, and the demand for documented, transparent compliance with increasingly complex regulatory requirements (credit risk and consumer protection). Data from recent years show that, while the trend in fines is towards increasing levels, record fines (particularly in the areas of capital market operations and unauthorized activities) are accounting for a larger share of fines each year.

To avoid fines, it is also advisable to carry out internal (self-) inspections in the regulatory areas that are a priority for the Authority, including the functioning of internal lines of defense, in the periods between comprehensive supervisory inspections. In doing so, it is recommended to examine not only legal requirements but also supervisory recommendations and international best practices. KPMG's international network and experience in domestic financial regulation make us ready to assist financial sector actors in compliance.

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