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23 June 2017

Mr Ric Walters
Director Financial Services
AUSTRAC - Policy & International Branch
PO Box 13173 Law Courts
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By email: Policy_Consultation@austrac.gov.au

Dear Mr Walters

AUSTRAC INDUSTRY CONTRIBUTION 2017-18

Thank you for the opportunity to provide feedback on the “*AUSTRAC Industry Contribution 2017-18 - Stakeholder Consultation Paper*” (**Consultation Paper**).

AFIA Background

The Australian Finance Industry Association (**AFIA**)¹ is the industry advocate for Australia’s finance sector. AFIA represents more than 100 leading providers of consumer, commercial and wholesale credit, including ASX-listed companies, customer owned and regional banks, captive financiers, fintech firms and credit reporting bureaus. Collectively, AFIA members provide many billions to fund the future of Australian families, small business and large corporates. Equipment financiers alone conservatively fund \$90 billion of assets. Our diverse membership and the size of the market it represents see AFIA uniquely placed to provide specialist policy expertise to represent the interests of its members to federal and state governments, and Australia’s financial and corporate regulators.

General Feedback

AFIA commends AUSTRAC for its movement away from “*a one-size-fits-all approach to regulation and ... realigning its resources around the ML/TF risks and threats impacting its population to ensure that regulatory activity is more responsive.*”² This realignment of activity accords, in our view, with regulator best practice and supports AUSTRAC’s international endeavours in “*taking a leadership role in forums that materially contribute tangible and practical outcomes*”.³

These positive changes to AUSTRAC’s operating model, however, also highlight by way of contrast the current state of its funding model, which appears to be detracting from AUSTRAC’s regulatory evolution.

¹ Formerly the Australian Finance Conference (AFC), established in 1958, the Association resolved to change its name to better reflect its membership advocacy role and re-launched as the Australian Finance Industry Association from 1 June 2017.

² Page 7, Consultation Paper.

³ Page 8, Consultation Paper.

More specifically, AUSTRAC's operational approach is by design "risk focused", yet its funding model design is not. AUSTRAC increasingly focuses greater resources on those businesses whose product lines and/or approach to AML/CTF compliance pose greater system risk, yet this activity is increasingly disproportionately funded by those businesses whose models and compliance approach pose little, to no, system risk.

This contrast between an increasingly finely calibrated operating model and the current funding model, which is largely based on one metric – business size, is inconsistent. The current disconnect between the operational and funding models has important system implications. This gap has the potential to give rise to perceptions of "unfairness". Were this to happen it would, over time, erode confidence in Australia's anti-money laundering/counter terrorism financing regime. AFIA does not want to see that outcome eventuate.

AFIA Recommendation: AUSTRAC's funding model should be reviewed to more clearly incorporate principles of equity and fairness having regard to AUSTRAC's risk based operational model. This, however, is a matter for longer term reform and we recognise that it cannot be addressed in the context of a consultation on the 2017-18 Industry Contribution and also noting the impending date from which it is to take effect.

Specific Issue – Total Earnings

In relation to the Consultation Paper on the 2017-18 Industry Contribution we reiterate our previously expressed view in relation to the 2016-17 Industry Contribution that the approach to identifying "total earnings", for the purpose of calculating the Earnings Component of the Industry Contribution, leads to inequitable outcomes. We acknowledge that in determining how "total earnings" is calculated there is a balance to be reached between simplicity, certainty, cost and equity. But given equity is not a factor AUSTRAC has taken into account, per its high-level feedback on 2016-17 submissions, we do not agree that this balance has been appropriately drawn in setting the 2017-18 Industry Contribution.

AFIA Recommendation: There should be more detailed consideration by AUSTRAC to find an approach to defining 'total earnings when calculating the Earnings Component that achieves the underlying objective in a more efficient manner.

If you have any queries in relation to our submission please do not hesitate to contact me on
or Paul Stacey, Associate Director – Policy on

Kind regards

Helen Gordon
Chief Executive Officer