



26 August 2015

Consultation – AUSTRAC Industry Contribution
Strategic Intelligence and Policy Branch
PO Box 13173, Law Courts
MELBOURNE VIC 8010

By email: Policy_Consultation@austrac.gov.au

Dear Sir/Madam

AUSTRAC Financial Year 2015-16 Industry Contribution

The Australian Financial Markets Association (AFMA) represents the interests of over 130 participants in Australia's wholesale banking and financial markets. Our members include Australian and foreign-owned banks, securities companies, treasury corporations, traders across a wide range of markets and industry service providers. Our members are the major providers of services to Australian businesses and retail investors who use the financial markets. The majority of AFMA's members are reporting entities for the purposes of the AML/CTF Act.

As AUSTRAC is aware, AFMA has been heavily involved in consultation surrounding both the policy and design of the AUSTRAC Industry Contribution. We have objected, and continue to object, to Government regarding the form of the Industry Contribution, and particularly the abandonment of the Government's own Cost Recovery Guidelines in framing the Industry Contribution. This is a matter outside the remit of AUSTRAC or indeed the current consultation.

Further, we have made submissions with AUSTRAC regarding each of the preceding Discussion Papers dealing with the AUSTRAC Industry Contribution, namely submissions dated:

- 25 July 2014;
- 24 October 2014; and
- 19 December 2014.

The comments set out below should be read in light of the comments contained in those submissions.

1. The proposed charging model

As noted in the Discussion Paper, for the 2015-16 financial year the proportion of AUSTRAC's operating costs to be recovered under the industry contribution is 90%, a 29% increase from the proportion of 70% applicable for the 2014-2015 year.

The current charging model for the industry contribution is an equation with three factors, namely:

- Earnings component – 0.03% capped;
- Transaction report volume - \$0.01 per report; and
- Transaction report value - \$0.00008968.

AUSTRAC would recall AFMA’s objections to the third Discussion Paper, whereby the earnings component was reduced from 0.05% to 0.03%, with a compensatory increase to the transaction report value, and those objections are reiterated here, and indeed expanded upon below with respect to the earnings threshold.

Of more concern is the proposal from AUSTRAC to address the additional 29% (i.e. from 70% to 90%) to be recovered from industry by only changing one of the three factors, namely the transaction report value, which is proposed to increase from \$0.00008968 to \$0.00011022 (indicatively). It is clear that the reporting entities that are large financial institutions are those that lodge the transaction reports with the greatest value, and hence virtually the entire increase in AUSTRAC’s operating expenditure to be recovered from industry is to be borne by large financial institutions. This is apparent by the increase in the maximum amount payable from \$6,430,600 to \$9,237,247, an increase of 43%.

Shortly stated, this is neither equitable nor is it an “industry” contribution. A significant number of reporting entities, entities that pose a considerable risk to Australia’s AML/CTF regime, are already exempted from paying the industry contribution and this inequitable position is exacerbated by a revised model that imposes the additional burden on one sub-set of reporting entities. This is another example of AUSTRAC conflating size of reporting entity and sophistication of AML/CTF programs to the AML/CTF risks that generate the need regulation, an issue that FATF rightly pointed out in its Mutual Evaluation.

At a minimum, each of the factors that are included in the current charging model should be raised more equally, so as to share the burden of the increase in AUSTRAC’s operating expenditure across the reporting entity population.

2. Proposed reduction to earnings threshold

Under the current Industry Contribution model, and that proposed for 2015-16, there is an earnings threshold of \$100 million. This means that the minimum earnings component is \$20,000, based on a fixed percentage of 0.03%.

This threshold is set significantly higher than the minimum charge of \$1,000, and hence there are a significant number of leviable entities that do not pay any earnings component. Given the increase in the total amount to be recovered and the increased burden on larger institutions, we would advocate a reduction to the earnings threshold so as to spread the burden of the increase in a manner more commensurate to the risks posed. A reduction to, say, \$10 million would ensure an earnings component payment for entities that may still be considered to be large.

3. Issuance of one invoice per Designated Business Group

Currently, AUSTRAC issues invoices for the Industry Contribution to each reporting entity. This may give rise to operational inefficiencies where there are multiple reporting entities within the same Designated Business Group (DBG). Accordingly we would submit that the head entity of the DBG should be able to receive a consolidated invoice on behalf of the DBG.

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Thank you for the opportunity to provide a submission in relation to the AUSTRAC Discussion Paper.
Please contact me with any queries on _____ or _____ .

Yours sincerely

pp. Rob Colquhoun
Director, Policy