



OFFICE OF THE CHIEF EXECUTIVE OFFICER

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Mr David Murray AO  
Chair  
Financial System Inquiry  
GPO Box 89  
SYDNEY NSW 2001

E-mail: [fsi@fsi.gov.au](mailto:fsi@fsi.gov.au)

Dear Mr Murray

**Re: Interim Report of the Financial System Inquiry (FSI)**

I refer to the Interim Report of the FSI and references within that report to the functions of the Australian Transaction Reports and Analysis Centre (AUSTRAC).

The regulatory requirements administered by AUSTRAC in respect of the financial sector are contained within the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). A statutory review of the AML/CTF Act commenced on 4 December 2013 and is expected to conclude some time in 2015. In addition, Australia is currently the subject of an evaluation by the Financial Action Task Force (FATF), the body responsible for establishing international standards for the way in which countries should establish and administer anti-money laundering and counter-terrorism financing regimes.

The two reviews outlined above will have regard to some of the matters considered in the FSI Interim Report. In particular, whether additional products and services should be subject to the requirements of the AML/CTF Act is a specific focus for the review of the AML/CTF Act. On that basis, it may be appropriate for the FSI to leave consideration of these matters to these more targeted reviews which are already in place.

I would, however, like to take this opportunity to make some observations with respect to comments contained within the Interim Report as to the costs on the financial sector in complying with the obligations of the AML/CTF Act and suggestions that AUSTRAC form part of the Council of Financial Regulators.

## Regulatory Burden

The AML/CTF Act embodies standards set at an international level by the FATF which have been endorsed by the G8 and the G20. Most recently, the Final Communique of the meeting in Moscow of 19-20 July 2013 of G20 Finance Ministers and Central Bank Governors again reinforced FATF's work in combating money laundering and terrorist financing. The Communique encourages all countries to meet the FATF's standards.

As a result of the application of these international standards, Australia's AML/CTF regime is not out of step with those of other countries and does not impose a higher regulatory burden on Australian entities relative to their international counterparts. Furthermore, the capacity of Australia's financial institutions to operate internationally may be impeded should the obligations in Australia be weakened below those required by the FATF.

Wherever possible, AUSTRAC seeks to reduce regulatory burden through applying risk based approaches to the regulation of reporting entities, ensuring that any new regulations imposed on industry are necessary to achieve a specific regulatory objective and through utilising provisions of the AML/CTF Act which enable me to exempt entities from the operation of the Act where this is warranted.

## Council of Financial Regulators

AUSTRAC supports the suggestion that it be included within the membership of the Council of Financial Regulators.

The Council is the key coordinating body for Australian regulators of the financial system. In other international jurisdictions where regulation is undertaken on industry rather than functional lines, AML/CTF regulation is part of the activities of the prudential or market conduct regulator. Membership of the Council would assist other regulators to understand issues relating to AML/CTF and the implications for financial institutions, particularly in light of large fines levied on financial institutions in other jurisdictions for breaches of AML obligations and international sanctions.

Membership would also help to ensure that Australia's interests in international bodies that consider AML/CTF issues are properly addressed. For example, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the International Organisation of Securities Commissions all contain references to compliance with the FATF standards within their respective standards. Australia's representatives to these organisations are all members of the Council and, accordingly, AUSTRAC's membership of the Council would ensure coverage of the full range of issues considered by the principal international financial standard setting bodies.

We would be happy to discuss these or any other matters related to AUSTRAC with you or the FSI secretariat.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive-style name.

John L Schmidt  
**CHIEF EXECUTIVE OFFICER**