



7 July 2016

Director – AML/CTF Rules
Legal, Governance and Risk
AUSTRAC
PO Box 13173, Law Courts
MELBOURNE VIC 8010

Attention: Philip Johns

By email: Rules@austrac.gov.au

Dear Philip

Draft costings: electronic safe harbour procedures

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.

We note the AUSTRAC Consultation Paper titled "Draft costings: electronic safe harbour procedures" (**the Consultation Paper**). We are pleased to provide comments in relation to the conclusions reached in the Consultation Paper, both in respect of the policy underpinning the proposed rule change and also the proposed deregulation benefits arising.

Chapter 4 Amendments

AFMA remains supportive of the proposed amendments to Chapter 4 of the Rules to align the electronic safe harbour procedures for customers with those for beneficial owners in the manner proposed in the Consultation Paper. We lodged a submission dated 8 July 2015 that stated

"AFMA supports the draft amendment to Rule 4.2.13 that was issued in June 2014. This version required verification of the customer's name and any of residential address, date of birth or transaction history."

Accordingly, our comments below should not be construed as in any way advocating a different version of the amendment to Rule 4.2.13 or a lack of support for the rule change being implemented.

Draft Costings

The headline number in the Consultation Paper in terms of the annual average savings arising from the proposed rule change is an annual saving of \$13,001,586. This is split between benefits for business of \$7,186,506 and for individuals of \$5,815,080. Included in these savings is a one-off amount, equating to 7% of the business savings (\$506,602) for business to “understand the new changes and amend their procedures.”

The quantification of these savings is underpinned by an assumption that reporting entities will have an additional 4,010,400 new customers each year. Broadly, AFMA has no ability to verify this assumption. While the Consultation Paper suggests that the source of this assumption is PwC, indeed the 2014 Regulatory Impact Statement that utilises this number of new customers cites AUSTRAC as the source. The calculation of the number of new customers states that AUSTRAC has advised that each of the major banks has 600,000 new customers per annum and that the major banks comprise 69.6% of industry expenditure. This formula fails to take into account the differences between retail and wholesale customers and hence, in our view, significantly overstates the new customers for Australian reporting entities annually.

In addition, the feedback from our members is that the cost of understanding the changes and amending procedures significantly understates the initial costs to reporting entities arising from the change. Given the significant changes that will be required to update systems and unwind the current systems, it may be that the savings over the initial five to ten years are immaterial.

Our inability to verify the key assumption underpinning the quantification of the deregulatory savings coupled with our view that the implementation costs for industry are understated in the Consultation Paper means that we cannot endorse the \$13,001,586 of deregulatory savings arising from the proposed change to the Rules.

Conclusion

AFMA remains supportive of the proposed amendments to Chapter 4 of the Rules and believes that over the medium to long term they will result in deregulation savings. However, given the concerns expressed as to the reliability of the quantification of the annual savings, we do not support any purported deregulation savings as being used as an offset for additional regulatory burden being imposed on our members in the future.

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Thank you for the opportunity to provide a submission in relation to the Consultation Paper. Please contact me with any queries on 02 9776 7996 or rcolquhoun@afma.com.au.

Yours sincerely



Rob Colquhoun
Director, Policy