



Australian Government

Australian Transaction Reports  
and Analysis Centre

# AUSTRAC SUPERVISION STRATEGY 2010–11



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The information contained herein is current as at the date of this document.

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## EXECUTIVE SUMMARY

AUSTRAC's purpose is to protect the integrity of Australia's financial system and contribute to the administration of justice through our expertise in countering money laundering and the financing of terrorism.

As Australia's financial intelligence unit (FIU), AUSTRAC collects, retains, analyses and disseminates financial intelligence to revenue, law enforcement, national security, social justice, regulatory and other partner agencies in Australia and overseas. We identify potential money laundering and terrorism financing (ML/TF) cases and provide financial intelligence that enables partner agencies to detect ML/TF activity, investigate financial crimes and secure prosecutions. This supports national priorities to maximise revenue collection, protect national security, apprehend criminals and protect the integrity of Australia's financial markets.

As Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regulator, we educate, monitor and work to improve the effectiveness of reporting entities' compliance with the requirements of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) and the *Financial Transaction Reports Act 1988* (FTR Act). In some circumstances, we seek to enforce compliance with these Acts through more formal mechanisms.

These regulatory activities have two key goals:

- to improve the integrity (both quantity and quality) of transaction reports received by AUSTRAC to assist the FIU and through it, AUSTRAC's partner agencies, in the furtherance of their activities
- to strengthen reporting entities against use of their services by criminals for money laundering and terrorism financing (ML/TF) purposes.

In 2009–10 AUSTRAC's supervisory approach moved from start-up activities to business as usual. The application of the Policy (Civil Penalty Orders) Principles 2006 (Policy Principles), which provided reporting entities with a period of assisted compliance after the phasing in of obligations under the AML/CTF Act, ended in March 2010.

Consolidating AUSTRAC's business-as-usual supervisory activities will continue in 2010–11.

A key focus for AUSTRAC over 2009–10 was to increase coverage across the regulated sector by matching different supervisory tools and techniques to different industry sectors.

In 2010–11 the focus on improved coverage continues with greater emphasis on targeting our supervisory activities towards those entities where improvements in regulatory compliance are likely to yield the highest impact on achieving our key goals.

## PRIORITIES FOR 2010–2011

In 2010–2011 the major priorities for AUSTRAC's supervisory teams will be:

- transaction reporting with a particular focus on under reporting, non-reporting and the quality of transaction reports
- responding to partner agency requests for assistance and reviews of reporting entities
- providing guidance, education and training to smaller less resourced entities
- assessing AML/CTF programs and compliance with Know Your Customer (KYC) obligations.

### Activities across industry sectors

In 2010–11 AUSTRAC will employ evidence-based selection processes to identify reporting entities for supervisory activity.

During the year a large portion of the regulated population will be assessed for anomalous transaction reporting behaviour (a behavioural assessment). When a reporting entity's behaviour is found to be outside that expected for its industry cohort, AUSTRAC will escalate its engagement with the reporting entity to determine the basis for this behaviour. The type of engagement with reporting entities will be tailored to the type of entity and the issues identified. This escalated engagement might include more intensive supervision activities (such as desk reviews and on-site assessments) to determine whether a reporting entity is meeting its AML/CTF obligations.

AUSTRAC has arranged its supervisory activities along regional lines. In addition, two specialist frontline supervisory teams have been established to address specific issues. A Referrals team has been established to deal with requests made through partner agencies to undertake assessments of nominated entities. A Major Reporters team has also been established to supervise reporting entities that lodge the highest volume of transaction reports with AUSTRAC.



Industry engagement through information circulars, AUSTRAC's monthly e-newsletter, forums and other forms of practical guidance will also continue through 2010–11.

### Measuring effectiveness

We will measure the success of Supervision's activity by the volume of activity (i.e. number of actively engaged reporting entities) and depth (i.e. volume and quality) of compliance behaviours across the regulated population.

In 2010–11, AUSTRAC will seek to undertake around 2,700 behavioural assessments of reporting entities. In addition, AUSTRAC anticipates that it will undertake approximately 355 desk reviews and 80 on-site assessments of reporting entities.

We also plan to undertake industry surveys across five industry sectors. These surveys will provide AUSTRAC with a greater understanding of how certain sectors have understood and are implementing their AML/CTF obligations, particularly those related to reporting, transaction monitoring and ongoing customer due diligence. Aggregated findings will be provided back to our regulated community.

We will seek to gauge the achievement of outcomes resulting from our supervisory activity through identifying and resolving instances of systemic non-compliance, rectifying non-compliance by specific reporting entities, monitoring the impact these activities have on the broader regulated population and the value of AUSTRAC's financial intelligence to our partner agencies.

These key performance indicators will be reported internally each quarter and externally on an annual basis through the *AUSTRAC Annual Report 2010–11* and the *AUSTRAC supervision strategy 2011–12*.

An assessment of AUSTRAC's performance against the *AUSTRAC supervision strategy 2009–10* is set out at Appendix A.

## AUSTRAC – AUSTRALIA’S FIU AND AML/CTF REGULATOR

### AUSTRAC’s functions

AUSTRAC’s purpose is to protect the integrity of Australia’s financial system and contribute to the administration of justice through our expertise in countering money laundering and the financing of terrorism.

AUSTRAC is the interface between reporting entities and government agencies in providing financial intelligence to partner agencies involved in the collection of revenue, law enforcement, national security and financial markets regulation.

This purpose is achieved through the collaborative efforts of two interdependent functions:

- as Australia’s FIU, we collect, analyse and disseminate financial intelligence to revenue, law enforcement, national security and other partner agencies in Australia and overseas
- as Australia’s AML/CTF regulator, we aim to improve the compliance of reporting entities in the money services, financial services, bullion and gambling

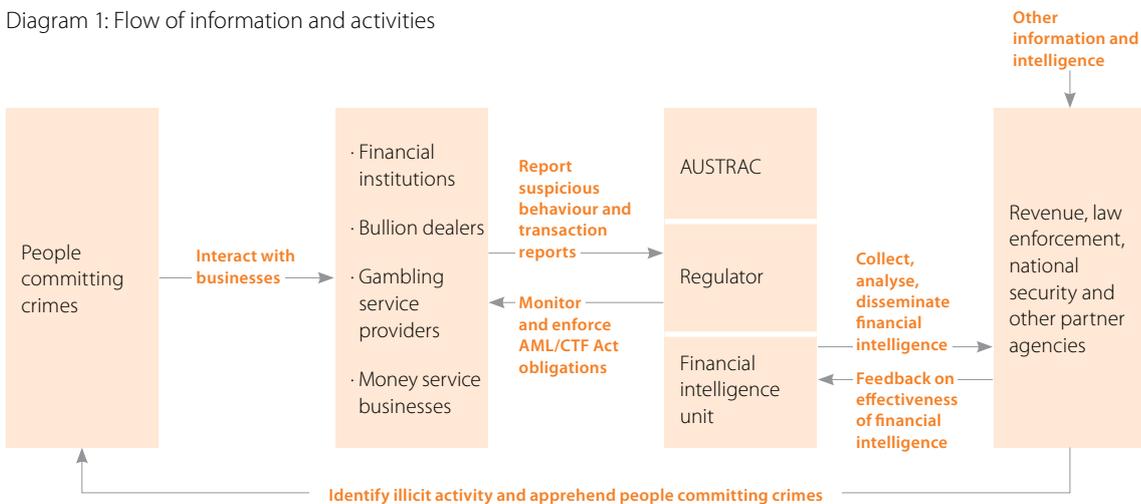
sectors with their obligations to manage ML/TF risk and submit reports to AUSTRAC. This is designed to maximise the quality of the raw data AUSTRAC receives and enables us to produce financial intelligence of the highest value. We seek to achieve reporting entity compliance via a range of less formal through to more formal mechanisms.

This flow of information and activities is shown in the diagram below.

AUSTRAC’s dual roles complement each other. Intelligence on entities, trends and emerging concerns helps to inform regulatory efforts about vulnerable and high-risk sectors. Industry supervision is vital for promoting compliance with AML/CTF obligations, not least the transaction reporting upon which our financial intelligence is largely based.

Combining regulatory and financial intelligence also provides a more detailed picture of the money laundering and terrorism financing environment, which benefits not only our own work but also the efforts of partner agencies.

Diagram 1: Flow of information and activities



## Reporting entities' responsibilities

The AML/CTF Act embodies five key areas that are internationally recognised as best practice in deterring and detecting ML/TF. Broadly speaking, reporting entities are required to:

- 1 Conduct ML/TF risk assessments.** Businesses must understand and manage the ML/TF risks they are exposed to when they provide different products and services, use different distribution channels, deal with different customers and operate in different jurisdictions.
- 2 Implement systems and governance to manage their ML/TF risks.** Businesses must establish appropriate oversight of ML/TF risk by senior management, ensure there is an employee due diligence program and that staff are trained to detect ML/TF behaviour and regularly review the effectiveness of their systems and compliance with their obligations.
- 3 Know their customers.** Businesses must verify the identity of their customers, monitor their customers' behaviour and keep appropriate records of these actions. Financial institutions must also appropriately identify any other financial institutions with which they do business.
- 4 Make themselves known to AUSTRAC.** Most reporting entities<sup>1</sup> must advise AUSTRAC that they have obligations under the AML/CTF Act, either through submission of a compliance report (CR) under section 47 or, if they are a remittance service provider, by registering under Part 6 of the AML/CTF Act. As a practical measure, most reporting entities make themselves known through enrolling on AUSTRAC Online.

- 5 Report to AUSTRAC.** Businesses must provide reports to AUSTRAC on cash transactions above a \$10,000 threshold, instructions for international funds transactions and suspicious matters. Most must also report regularly on their own compliance with their obligations under the AML/CTF Act through a CR.

Compliance with these key obligations should result in high quality transaction reporting to AUSTRAC and ultimately an Australian community hostile to money laundering and the financing of terrorism.

## The external environment

Internationally the value of effective national AML/CTF frameworks drew the attention of national leaders during the Global Financial Crisis (GFC). In April 2009, the G20 leaders met in London and requested that the Financial Action Task Force (FATF) revise and reinvigorate its review process for non-compliant countries. This, at a time of great economic uncertainty, amounted to an implicit endorsement of the global importance of AML/CTF regulation. By early 2010, FATF responded to this request with the release of a public list of countries with strategic deficiencies in their AML/CTF frameworks. The G20 reaffirmed its commitment to AML/CTF regulation at its meeting in Toronto this year.

As FATF moves towards the end of its current mandate (2004–12), considerable activity is focused on improving the international AML/CTF standards, including those relating to regulation, prior to the next FATF term. The outcomes of these deliberations are likely to inform Australia's AML/CTF framework into the future.

The significance of AML/CTF regulation has also been raised at the domestic level. In November 2009, the Attorney-General launched the Government's Organised Crime Strategic Framework. Money laundering is a critical component of organised criminal activity and imposes significant costs on the Australian community.

<sup>1</sup> Holders of an Australian financial services licence who only make arrangements for a person to receive a designated service (such as financial planners) are not required to submit a compliance report.



### Structure of AUSTRAC's supervision function

AUSTRAC's regulatory function has evolved and our processes have matured since the commencement of the AML/CTF Act in December 2006. In October 2009, in recognition of the two significant operational elements of AUSTRAC, the agency was divided into two Divisions: Supervision and Intelligence.

In April 2010, a new organisational structure was adopted for AUSTRAC's Supervision Division.

The Supervision Division is made up of the two frontline Supervision Branches, AUSTRAC's Office of General Counsel (whose responsibilities include drafting AML/CTF Rules under the AML/CTF Act) and AUSTRAC's enforcement team.

Under the new Supervision structure, the two frontline Supervision Branches have been reformed along regional lines: Supervision Central and North West; and Supervision South. These branches, led by their respective General Managers oversee reporting entities in the following three regions:

- North West region – Queensland, Western Australia, Northern Territory
- Central region – New South Wales, Australian Capital Territory
- South region – Victoria, South Australia, Tasmania.

The new structure will better meet the challenges posed by a large and geographically dispersed reporting entity population by adopting a regional approach to supervision activities. The regional approach will not reduce AUSTRAC's emphasis on industry sectors as each region will contain frontline business units that focus on specific industry types.

The regional teams are supplemented by two specialist frontline teams. A Major Reporters team has been established with responsibility for the supervision of AUSTRAC's largest reporting entities (by volume of transaction reports lodged with AUSTRAC). This reflects the importance of these entities to AUSTRAC's data holdings and their significance to the integrity of

Australia's payments system. In addition, a Referrals team has been established to further enhance partner agency outcomes, particularly investigations involving high-risk industry cohorts.

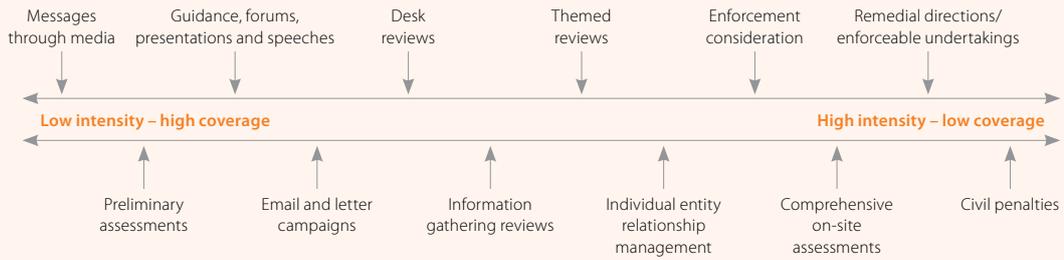
In addition, there are three enabling business units within the Supervision Branches.

- Reporting Entity Operations – responsible for maintaining census information about AUSTRAC's reporting entities and providing the infrastructure for AUSTRAC's broad-based engagement activities with reporting entities through the AUSTRAC Help Desk and mail-out capabilities.
- Technical Development and Advice – responsible for managing processes associated with applications for relief from reporting entities (exemptions and no-action letters) and drafting technical guidance and other explanatory materials for both internal AUSTRAC staff and reporting entities.
- Data Research and Statistics – responsible for monitoring the quality, timing and volume of transaction reports lodged with AUSTRAC by reporting entities, managing the transition of reporting entities to new transaction report formats, undertaking macro analysis of AUSTRAC's transaction report holdings for supervision purposes and undertaking primary research activities to increase AUSTRAC's understanding of its reporting entity population and the way in which obligations under the AML/CTF Act have been interpreted and applied by reporting entities.

### AUSTRAC's supervision activities

The central focus of our supervision strategy is to maximise our coverage of the regulated population by matching different supervisory activities to the compliance behaviours of different cohorts. This will ensure we use our resources effectively to achieve the greatest impact on the compliance behaviours of the different parts of the regulated population.

**Level of intensity of supervisory activity**



AUSTRAC’s categorises its supervisory activities into three levels of intensity:

- **Low intensity or ‘engagement’ activities** such as mail-outs, e-newsletters and the development and distribution of guidance materials. These activities are designed to influence the behaviours of a broad group of reporting entities, but are not specifically targeted towards any individual reporting entities.
- **Moderate intensity or ‘heightened’ activities** such as behavioural assessments, desk reviews, themed reviews and transaction monitoring. These activities are directed towards assessing the actual compliance behaviour of a particular group of reporting entities or individual reporting entities.
- **High intensity or ‘escalated’ activities** such as on-site assessments and enforcement consideration. These activities are specifically tailored to individual reporting entities and are designed to have a direct impact on improving compliance outcomes. Where these activities do not result in improved compliance, they are likely to result in enforcement action.

AUSTRAC expects that low intensity activities will be applied to relatively larger cohorts of reporting entities as compared to moderate or high intensity activities.

These various activities are shown in the diagram above.

**Relative application of supervisory activities**

Determining which type of activity to use in which circumstance will depend on the:

- AML/CTF risk associated with a reporting entity
- nature and scale of the problem
- impact of the problem on AUSTRAC’s intelligence data holdings
- resources available
- type of reporting entity to which the activity is directed
- the compliance history of the reporting entity
- nature of the industry, including its competitiveness, maturity, compliance attitudes and level of support available through industry bodies.



## SUPERVISION PLAN

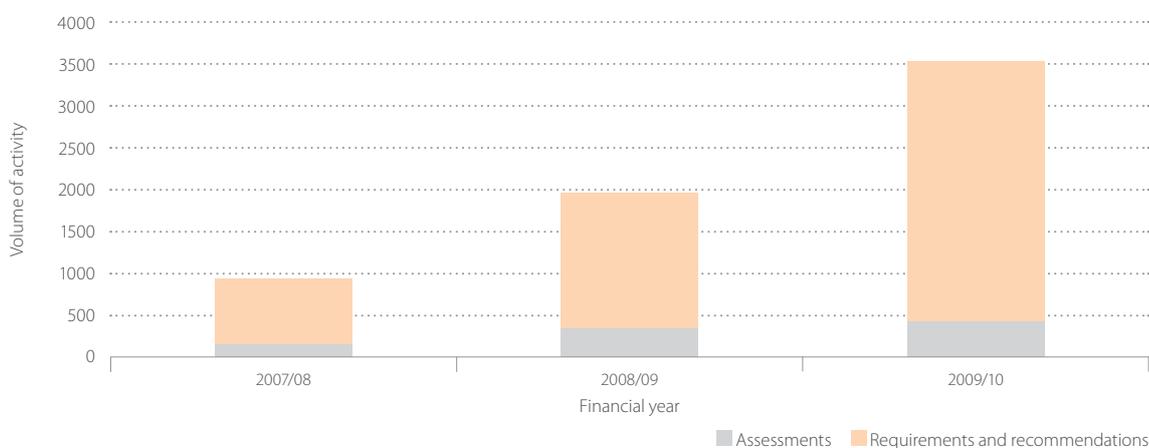
### Increased supervision scope and penetration

Since the commencement of the AML/CTF Act in 2006, AUSTRAC has been increasing the level of its supervisory activity.

A key challenge for AUSTRAC into the future is to develop methodologies which will allow us to effectively engage with a larger proportion of the reporting entity population. AUSTRAC recognises that to achieve greater coverage of the regulated population, broader spectrum techniques for identifying issues of compliance must be used in conjunction with existing techniques such as on-site visits and desk reviews.

Over 2009–10, we explored ways to enhance our regulatory processes by utilising our strengths in data matching and data management. In particular, we have been considering what information can be obtained about a reporting entity's overall AML/CTF compliance levels through the analysis of transaction reporting behaviour.

Graph 1: AUSTRAC's supervisory assessments  
Supervisory assessments and outcomes



<sup>2</sup> Note that this section does not apply to reporting entities supervised by the Major Reporters team. Details of the supervisory approach for Major Reporters are set out below.

### Observable compliance behaviours

Not all industry sectors or reporting entities display identical ML/TF exposures. AUSTRAC, through analysis of transaction report data, is able to identify these differences and set its expectations about the compliance behaviours of different industry sectors.

In 2010–11, AUSTRAC will apply these methodologies to a broad range of reporting entities to identify reporting entities which may require more intensive regulatory intervention.

The following sections outline the activities to be undertaken in each industry sector in 2010–11.

#### Banks and other lenders

The banks and other lenders<sup>2</sup> sector is made up of a mixture of reporting entities, ranging from very large international banks through to small lenders.

A key focus in the banks and other lenders sector in 2010–2011 will be reporting volumes and accuracy. AUSTRAC's banks and other lenders regulatory activity will be targeted towards those entities which AUSTRAC assesses as having a high likelihood of incurring



reporting obligations but which are not lodging transaction reports or where the number of transaction reports is out of line with industry peers.

For reporting entities that are less likely to incur reporting obligations, the strategy will test whether appropriate policies and procedures are in place to ensure that, when reporting is required, it is undertaken in a timely and accurate manner.

In support of its 2010–11 regulatory activities, AUSTRAC will continue to develop its relationships with industry peak bodies.

#### **Non-bank financial services**

Our supervisory approach for the non-bank financial services (NBFS) sector will involve a variety of assessments including a focus on transaction reporting including Suspect Matter Reports (SMRs).

The focus of our reviews of Threshold Transaction Reports (TTRs) and SMRs will be to identify entities that should be reporting and to review the timeliness, completeness, quality and accuracy of the data included in the reports provided to AUSTRAC.

Our supervisory activity will also test the effectiveness of risk-based systems and controls implemented by reporting entities to ensure a robust environment exists for ongoing customer due diligence purposes, including a transaction monitoring program.

#### **Gambling and bullion**

The basis for 2010–11 gambling and bullion supervisory activity is to recognise the different levels of sophistication and adoption of AML/CTF legislative obligations within and between the industries that comprise the gambling and bullion sector.

Bookmakers, bullion dealers and hotels and clubs historically report low levels of transaction reports. AUSTRAC will be contacting a broad range of entities within this sector to confirm whether existing reporting levels are appropriate.

In addition, in recognition that some smaller reporting entities find a risk-based approach difficult to implement, AUSTRAC will be producing a series of practical guidance documents for different industry segments. In particular, AUSTRAC will be targeting practical guidance documents for bookmakers, hotels and clubs. We will examine the possible development of similar material for small bullion entities. The purpose of this guidance is to increase understanding of AML/CTF obligations, including reporting to AUSTRAC, using terminology easily understood by each industry segment. Focused follow-up compliance assessments will be conducted on a selection of entities within these segments.

Casinos, totalisators, corporate bookmakers and betting exchanges will be considered for detailed compliance activity where they are identified as having transaction reporting behaviours which are out of line with similar entities.

The casinos and betting exchanges will also be subject to compliance assessments on the quality of their transaction reporting to AUSTRAC as well as on specific aspects of their AML/CTF obligations, such as ongoing customer due diligence and transaction monitoring program requirements.

#### **Money services businesses**

AUSTRAC will engage with money services businesses (MSBs) whose reporting behaviour is outside the range of expected behaviours for this sector. In circumstances where AUSTRAC has concerns about the reporting behaviours of reporting entities, it will target these entities for more intensive supervisory activities.

In addition, AUSTRAC's supervisory activity in the MSB sector will involve on-site assessments of entities within money remittance providers, foreign currency exchanges and cash carriers with a focus on those entities specialising in remitting funds to higher risk jurisdictions.

During the year, AUSTRAC will develop practical guidance for certain entities within the MSB sector to assist them to understand their obligations under the AML/CTF Act.

## Major reporters

The Major Reporters team is responsible for the supervision of AUSTRAC's highest volume reporters including larger banks and corporate remitters. These entities tend to be well resourced, accustomed to regulation, skilled in risk management and have the ability to access external expertise when required.

Supervisory activity with the major reporters in 2010–11 will involve on-site assessments and shorter, more narrowly focused reviews of transaction reports. The scope of the assessments will include, but may not be limited to, transaction monitoring programs. This will include an assessment of the resources allocated to transaction monitoring, processing, procedures and the management of alerts generated by transaction monitoring systems. Importantly, AUSTRAC will consider the adequacy of ongoing assurance or 'fit for purpose' activities undertaken by the reporting entity relating to its transaction monitoring systems.

AUSTRAC will undertake focused reviews of major reporters' transaction reports. AUSTRAC will consider the completeness, quality and accuracy of the data included in the reports and the consistency between large value TTRs and SMRs lodged. These reviews will also consider the appropriateness of SMRs lodged by entities through different relationship models. For example, SMRs that emanate from employees dealing with face-to-face retail interactions as compared to those emanating from relationship managers dealing with larger corporate and private banking clients.

During 2010–11 AUSTRAC will facilitate forums for reporting entities within the major reporters group that will consider issues of compliance as well as financial intelligence.

## MEASURING THE VALUE WE ADD

For the 2010–11 year, in order to be fully effective, Supervision's activities must:

- support AUSTRAC's commitment to international conventions
- enhance AUSTRAC's ability to identify and supply timely information to partner agencies that pertains to any potential ML/TF events
- minimise the possibility that AUSTRAC fails to act on information indicating a breach in a reporting entity's compliance regime.

At an operational level, the success of Supervision's activity will be measured by the increase in spread (i.e. number of actively engaged reporting entities) and depth (i.e. volume and quality) of compliance behaviours across the regulated population.

In support of this, Supervision will work to improve:

- the validity, completeness, timeliness and relevance of reporting entities' transaction reports information (i.e. International Funds Transfer Instructions (IFTIs), TTRs and SMRs)
- reporting entities' awareness and understanding of their AML/CTF obligations
- the regulated population's awareness of new and emerging threats, weaknesses or criminal trends in the current AML/CTF environment, both domestically and internationally.



## APPENDIX A

### Outcomes from the AUSTRAC supervision strategy 2009–10

Over 2009–10, AUSTRAC's core supervisory activities were focused on a program of on-site inspections and desk reviews. During the latter part of the 2009–10 year, AUSTRAC considered ways to further enhance its supervision processes by taking advantage of our core capabilities in data analysis.

During 2009–10, AUSTRAC's supervisory teams were structured along industry lines:

- banking and finance
- non-bank financial services
- money services businesses
- gambling and bullion entities.

The activities undertaken and the outcomes achieved in each of these industry groups are outlined below.

Table 3: AUSTRAC's 2009–10 activities summary

Sector	Number of assessments undertaken <sup>3</sup>	Number of requirements <sup>4</sup> and recommendations <sup>5</sup> issued	Enforcement outcomes	Other activities completed
<b>Banking and other lenders</b>	103	229 requirements 229 recommendations	17 section 202 notices <sup>6</sup> , 1 enforceable undertaking <sup>7</sup>	
<b>Non-bank financial services</b>	82	128 requirements 147 recommendations	11 section 202 notices, 1 section 167 notice	Information Circular No. 71 issued 20 education/ outreach activities with reporting entities and industry associations
<b>Gambling and bullion</b>	193	570 requirements 279 recommendations	7 section 162 notices <sup>8</sup>	20 education/ outreach activities with reporting entities and industry associations
<b>Money services businesses</b>	124	816 requirements 174 recommendations	2 enforceable undertakings, 1 remedial direction, 7 section 202 notices	19 outreach exercises agent registration campaign which increased AUSTRAC's registered population by 900

<sup>3</sup>These figures reflect the number of assessments undertaken in 2009–10. A number of assessments undertaken during 2009–10 remained in progress at 30 June 2010 – these assessments may subsequently result in remedial requirements and recommendations being issued. An assessment is considered closed only when a compliance assessment report has been issued to the reporting entity.

<sup>4</sup> A requirement sets out the provision(s) of the AML/CTF Act or AML/CTF Rules that has/ have not been met by the reporting entity as well as the material facts observed during the assessment, the action required and a due date for the action.

<sup>5</sup> A recommendation sets out a proposal for action or procedural changes that should be formally considered by the reporting entity for implementation. The proposals address the

### Banks and other lenders

In the banks and other lenders sector 103 assessments were undertaken in 2009–10, comprising 17 on-site assessments, 63 desk reviews and 23 reporting reviews. This resulted in 229 requirements and 229 recommendations being issued.

Higher volume reporting entities have been a major focus for AUSTRAC in the banks and other lenders sector. Over the last two years all major banks have been assessed on aspects of their obligations under the AML/CTF Act and Rules. A sample of smaller non-bank authorised deposit-taking institutions (ADIs) and other lenders have also been reviewed during the period.

The scope of assessments covered sampling of customer due diligence processes, reviews of TTR and IFTI reporting processes and controls as well as reviews of Part A programs and independent reviews.

areas where there may be ways the reporting entity can further enhance its compliance systems and controls to assist in better mitigating ML/TF risk in the future.

<sup>6</sup> Under subsection 202(2) of the AML/CTF Act, the AUSTRAC CEO or an authorised officer may issue a notice requiring a person to give information or produce documents.

<sup>7</sup> Section 197 of the AML/CTF Act provides the AUSTRAC CEO with the power to accept written undertakings from persons in relation to compliance with the AML/CTF Act, and for the enforcement of such undertakings by the Federal Court.

<sup>8</sup> A section 162 notice means that under subsection 162(2), Part 13 Division 7 of the AML/CTF Act, the AUSTRAC CEO may, by written notice, require a reporting entity to appoint an external auditor to undertake specific tasks.

AUSTRAC accepted an enforceable undertaking (EU) from Barclays Bank PLC in respect of its Australian branch in relation to breaches of various provisions of the FTR Act and/or AML/CTF Act. This was a significant outcome for AUSTRAC as it marked only the second time the Agency used its enforcement powers to address non-compliance by a reporting entity<sup>9</sup>.

In addition to the acceptance of EUs, AUSTRAC's Executive was involved in intensive discussions with a number of other reporting entities to stress the importance of the findings from the assessment activity undertaken. These discussions have resulted in the reporting entities adopting rectification plans with senior management oversight. Such plans will be appropriate to the size of the reporting entity and the nature of AUSTRAC's concerns.

Two subsection 202(2) notices were issued by Supervision throughout the year and a further 15 were issued by Enforcement.

### **Non-bank financial services**

In the NBFS sector, 82 assessments were undertaken in 2009–10, comprising 43 on-site assessments, 20 desk reviews and 19 reporting reviews. This resulted in 128 requirements and 147 recommendations being issued.

Some small financial services providers such as providers of Item 54 designated services (Item 54 providers) continue to experience difficulties in adopting a risk-based approach to complying with the AML/CTF Act. To assist Item 54 providers in complying with their AML/CTF Act obligations, AUSTRAC issued Information Circular No. 71, which provided observations on compliance by Item 54 providers based upon AUSTRAC supervision activity.

AUSTRAC conducted assessments on a number of non-bank financial institutions relating to the requirement to conduct regular independent reviews of Part A Programs. Whilst AUSTRAC did observe a number of reporting entities who had an adequate approach (indeed, some reporting entities exceeded AUSTRAC's

expectations), many were non-compliant with this obligation. AUSTRAC is working to develop additional guidance on independent reviews.

Supervision issued 10 notices to reporting entities under section 202 and Enforcement issued one section 202. One notice under section 167 of the AML/CTF Act requesting information and documentation was issued.

### **Gambling and bullion**

In the gambling sector, 193 assessments were undertaken in 2009–10, comprising 121 comprehensive on-site assessments, 20 desk reviews and 52 transaction reporting reviews. This resulted in 570 requirements and 279 recommendations being issued.

Some smaller entities, such as bookmakers, hotels and clubs and bullion dealers continue to face difficulties in adopting a risk-based approach and implementing appropriate control measures. A practical guide for bookmakers was trialled with industry and was subsequently released in early 2010–11. The purpose of the guide is to provide assistance to bookmakers in meeting their obligations under the AML/CTF Act. A similar guide has been drafted for small gaming machine venues and will be released for use by hotels and clubs in 2010–11. The Gambling team continued to work closely with State gambling regulatory bodies, through meetings and exchanges of information.

Enforcement action was taken against seven reporting entities in the Thomas Hotels Group following a compliance assessment of one of the reporting entities in the group. Notices were given to each reporting entity under subsection 162(2) of the AML/CTF Act, requiring the reporting entities to appoint an external auditor.

<sup>9</sup> On 30 June 2009, AUSTRAC accepted an EU from Mega International Commercial Bank Co, Ltd CBC.

### Money services businesses

In the MSB sector, 124 assessments were undertaken in 2009–10, comprising 88 comprehensive on-site assessments, 14 desk reviews and 22 reporting reviews. These assessments resulted in 816 requirements and 174 recommendations being issued.

Some smaller and less sophisticated entities in this sector continue to face difficulties in adopting a risk-based approach and implementing appropriate control measures. A practical guide for remitters is being developed and will be released during 2010–11.

In November 2009, PayPal Australia Pty Ltd offered AUSTRAC an EU. In December 2009 the AUSTRAC CEO also accepted an EU from Eastern & Allied Pty Ltd trading as Hai Ha Money Transfer. As part of the undertaking, the company committed to the appointment of an independent party to prepare a written report to the AUSTRAC CEO detailing its response to AUSTRAC's concerns about the company's non-compliance with the AML/CTF Act.

In December 2009, AUSTRAC gave a remedial direction to Sydney-based remitter Little Persia. The direction required Little Persia to submit to AUSTRAC a written AML/CTF program within 28 days.

A successful remitter registration campaign was undertaken to increase the level of registration of remitters with AUSTRAC. This resulted in an additional 900 remitters being registered with AUSTRAC.

In the MSB sector, AUSTRAC issued seven notices under subsection 202(2) of the AML/CTF Act requesting information and documentation.

### Other activities

AUSTRAC's understanding of how reporting entities have interpreted and implemented their obligations has deepened considerably since the commencement of the AML/CTF Act. AUSTRAC's knowledge of the domestic

AML/CTF environment is now complemented by the activities of a research function within the Supervision Branches. Through this function, AUSTRAC launched a survey series in March 2010.

The first report in this series focused on AML/CTF compliance officers. The data from the survey responses created a profile of AML/CTF compliance officers in Australia, who they are, what they do, and the issues they face in their role. It is anticipated that additional survey-based and other research activities will be conducted in 2010–11.

In direct support of industry and the ongoing administration of the AML/CTF Act, AUSTRAC undertook a number of other significant activities in 2009–10:

- AUSTRAC granted 14 exemptions or modifications of the AML/CTF Act. Seventeen applications for exemption or modification of the AML/CTF Act were either not granted, not valid or withdrawn.
- AUSTRAC issued three no-action letters. Thirteen requests for a no-action letter to be issued were either not granted, not valid or withdrawn.
- The AUSTRAC Help Desk managed 17,680 calls, made over 1,000 outbound calls and responded to 5,487 pieces of correspondence. Over the course of 2009–10, AUSTRAC undertook 12 major mail-out campaigns sending information to over 16,000 reporting entities.
- AUSTRAC assisted reporting entities to transition to the new transaction reporting obligations under the AML/CTF Act. This included the assessment of over 200 test files. In addition, we responded to over 3,000 queries for assistance specifically on transaction reporting obligations.
- AUSTRAC continued to closely monitor the timing, volume and quality of transaction reports over 2009–10. Over 5,000 issues relating to transaction reporting were raised with reporting entities for remediation.

## GLOSSARY

**ADI** Authorised deposit-taking institution

**AML/CTF** Anti-money laundering and counter-terrorism financing

**AML/CTF Act** *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*

**AUSTRAC** Australian Transaction Reports and Analysis Centre

**CEO** The AUSTRAC Chief Executive Officer

**EU** Enforceable undertaking

**FATF** Financial Action Task Force; an international inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing

**FIU** Financial intelligence unit

**FTR Act** *Financial Transaction Reports Act 1988*

**GFC** Global financial crisis

**G20** The G20 is made up of the finance ministers and central bank governors of 19 countries who meet to discuss key issues in the global economy

**IFTI** International funds transfer instruction; an instruction transmitted electronically into or out of Australia for a transfer of funds regardless of the value

**Item 54 providers** Providers of services as listed under the AML/CTF Act, section 6, table 1 – Financial services, item 54

**KYC** Know your customer

**ML/TF** Money laundering/terrorism financing

**MSB** Money services businesses

**NBFS** Non-bank financial services

**Partner agencies** The law enforcement, national security, revenue, regulatory and social justice agencies to which AUSTRAC provides information

**Policy Principles** Policy (Civil Penalty Orders) Principles 2006

**Rules** AML/CTF Rules are legislative instruments made under section 229 of the AML/CTF Act

**SMR** Suspicious matter report; a report submitted to AUSTRAC by a reporting entity when it has reasonable grounds to suspect that provision of a designated service may be relevant to investigation of an offence against an Australian law, including tax evasion, money laundering and terrorism financing, or that a customer is not the person they claim to be

**Supervision** AUSTRAC's Supervision Branches

**TTR** Threshold transaction report; a report submitted to AUSTRAC by a reporting entity where the provision of a designated service involves \$10,000 (AUD) or more in physical currency, or \$10,000 or more in e-currency

