



NOTICE TO APPOINT AN EXTERNAL AUDITOR TO CONDUCT COMPLIANCE AUDIT

SUBSECTION 162(2) OF THE *ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING ACT 2006*

TO: Afterpay Pty Ltd (ACN 169 342 947) (**Afterpay**)
ACN: 169 342 947
Level 5, 406 Collins Street
Melbourne
VIC 3000

I, Nathan Newman, National Manager, Regulatory Operations of the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), as delegate of the Chief Executive Officer of AUSTRAC (**the AUSTRAC CEO**), have reasonable grounds to suspect that Afterpay is a reporting entity that has contravened and/or is contravening sections 32 and 81 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (**AML/CTF Act**).

Acting under subsection 162(2) of the AML/CTF Act, as delegate of the AUSTRAC CEO, I REQUIRE THAT:

Within 14 days of the date of this Notice, Afterpay must:

1. Identify three or more individuals Afterpay considers appropriate to be authorised as external auditors for the purpose of the audit AUSTRAC is seeking (**Nominated Individuals**)
 - a. In the event that Afterpay has appointed an independent auditor for example, for the purposes of an independent review in accordance with Chapters 8.6 of the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1)* (**AML/CTF Rules**), Afterpay may, instead of identifying three or more individuals for AUSTRAC's consideration, nominate that independent auditor only.
 - b. If item [1.a] applies, AUSTRAC may authorise that independent auditor as an external auditor for the purposes of s 162 of the AML/CTF Act. However, if AUSTRAC finds the independent auditor unsuitable for the purposes of s 162, Afterpay must still identify and provide, in accordance with items [2] and [3] of this notice, the details of three or more individuals for AUSTRAC's consideration within 14 days of being notified by AUSTRAC that it does not consider Afterpay's nominated independent auditor to be suitable.
2. Have each of the Nominated Individuals complete or provide to Afterpay, the following documents in support of their application to be authorised as an external auditor:
 - a. Completed 'Capability statement' (refer to **Annexure A**),
 - b. Signed statutory declaration (refer to **Annexure B**), and
 - c. Resume of the Nominated Individual, which is to provide an overview of the Nominated Individual's employment and education history and any other

information considered by the Nominated Individual to be relevant to the application

3. Submit the documents listed at items [2.a]-[2.c] above for each Nominated Individual, by email to external_auditors@austrac.gov.au

The AUSTRAC CEO will consider the applications of the Nominated Individuals (or the independent auditor referred to in item [1.a], if applicable) and whether they are appropriate to be authorised to conduct the external audit, and may authorise one of the Nominated Individuals to undertake the external audit. Afterpay and each of the Nominated Individuals will be notified in writing of the AUSTRAC CEO's decision with respect to the authorisation for this external audit.

Within 14 days of the date AUSTRAC has agreed to a candidate and authorised them under s 164 of the AML/CTF Act Afterpay must:

Engage the agreed candidate as the external auditor to conduct an audit covering the matters specified below including giving a written report (**the audit report**) to Afterpay.

Within 60 days of the external auditor being engaged, Afterpay must:

Provide AUSTRAC with a copy of the written interim audit report setting out the auditor's preliminary findings.

Within 120 days of the external auditor being engaged, Afterpay must:

Provide AUSTRAC with a copy of the final audit report.

The matters to be covered by the audit

(a) The audit should focus particularly on the following areas for the period 19 January 2015 to the date of this Notice:

- 1. Review of governance and oversight (including senior management / board level involvement) leading up to and including Afterpay's decisions regarding:**
 - a. The two separate updates to its AUSTRAC enrolment details whereby changes were made to the designated services it provides;
 - b. The drafting and approval of all versions of its AML/CTF program; and
 - c. Its general compliance with the AML/CTF Act and AML/CTF Rules.
- 2. Identification procedures etc (Part 2 of the AML/CTF Act)**
 - a. Identification procedures for certain low-risk services (Part 2, Division 3 of the AML/CTF Act)
 - i. Verification of the identity of low-risk service customers (Chapter 6, Part 6.4 of the **AML/CTF Rules**)
 - b. Applicable customer identification procedures (**ACIP**) (Part 2, Division 4 of the AML/CTF Act)
 - i. ACIP with respect to individuals, companies, trustees and partnerships (Chapter 4, Parts 4.2, 4.3, 4.4 and 4.5 of the AML/CTF Rules)
 - ii. Verification from documentation and from reliable and independent electronic data (Chapter 4, Parts 4.9 and 4.10 of the AML/CTF Rules)
 - iii. Collection and Verification of Politically Exposed Person information (Chapter 4, Part 4.13 of the AML/CTF Rules)
 - c. Verification of identify of customer etc (Part 2, Division 5 of the AML/CTF Act)
 - i. Verification of identify of customers (Chapter 6, Part 6.1 of the AML/CTF Rules)
 - d. Ongoing customer due diligence (Part 2, Division 6 of the AML/CTF Act)
 - i. Chapter 15 Ongoing Customer Due Diligence
- 3. Suspicious matter reporting obligations (Part 3, Division 2 of the AML/CTF Act)**
 - ii. Reportable details for suspicious matters (Chapter 18 of the AML/CTF Rules)
- 4. Reporting entity's obligations (Part 7, Division 2 of the AML/CTF Act)**
- 5. AML/CTF programs (Part 7, Division 3 of the AML/CTF Act)**
 - iii. Chapter 8 – Part A of a standard AML/CTF program

The audit report must be in a form that:

- (a) Accords with any Australian standard applicable to that kind of audit report, or which in the opinion of the external auditor accords with the closest applicable Australian standard; and
- (b) Accords with the format and style in which the external auditor would prepare a report suitable to annex to an expert witness affidavit the external auditor would make in Federal Court of Australia proceedings.

The audit report must contain details of:

- (a) Any provisions of the AML/CTF Act and/or the AML/CTF Rules which the external auditor concludes Afterpay has not complied with or is not complying with; and
- (b) The facts on which the auditor has relied to conclude any provisions identified in (a) have not been or are not being complied with; and
- (c) Any measures which the external auditor believes Afterpay should implement to ensure that it complies with the AML/CTF Act and the AML/CTF Rules; and
- (d) The capacity of Afterpay to implement the measures set out in (c).

Consequences of not complying with this notice:

Under section 162(7) a person commits an offence if:

- (a) the person is subject to a requirement under section 162(2); and
- (b) the person engages in conduct; and
- (c) the person's conduct breaches the requirement.

Penalty: Imprisonment for 12 months or 60 penalty units, or both.

Section 162(8), which is a civil penalty provision, states that a reporting entity must comply with a requirement under section 162(2).

The audit reports are to be submitted to:

██████████
PO Box 5516
West Chatswood NSW 1515
██████████

Dated this 12 day of June 2019



Nathan Newman
National Manager
Regulatory Operations