

HOME AFFAIRS PORTFOLIO
DEPARTMENT OF HOME AFFAIRS

PARLIAMENTARY INQUIRY SPOKEN QUESTION ON NOTICE

Senate Select Committee on Financial Technology and Regulatory Technology

28 February 2020

QoN Number: SCFTRT/001

Subject: Sharing of ‘know-your-customer checks’ as required under the Anti-money laundering and Counter-terrorism financing regime

Asked by: Senator Andrew Bragg

Question:

CHAIR: I think on the substantive issue which concerns this committee's deliberation, it might be useful to walk through an example of what the first component is, Mr Hansford. Maybe I can try to short-circuit it. If one financial institution passes a client through the AML/CTF framework, the proposal is that that check, that tick, could be transferred to another institution?

Mr Hansford: I think if bank A, for instance, has done customer due diligence to a certain standard in compliance with the anti-money laundering and counterterrorism financing regime, a second bank or other institution could rely on that first check, in broad policy terms.

CHAIR: Is that common in other jurisdictions?

Mr Hansford: I think it depends around the world. Different jurisdictions have similar types of arrangements.

CHAIR: You might want to take it on notice. I'm not trying to be difficult. The sense I have is that we are an early adopter. We are trying to do this open banking thing as a lead country.

Answer:

The Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 (the Bill), which is currently before Parliament, broadens the customer due diligence (CDD) ‘reliance’ provisions in the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (‘the Act’). As part of these reforms, the AUSTRAC CEO is also making rules with respect to these new provisions in the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007* (‘the Rules’).

The Bill enables a reporting entity under the Act to rely upon the applicable customer identification procedures undertaken by a third party, provided certain requirements in the Act and Rules are met. These requirements include that the reporting entity is satisfied on reasonable grounds that the third party is either another reporting entity,

or subject to and supervised or monitored by a competent authority responsible for AML/CTF obligations in line with the FATF recommendations, and has appropriate measures in place for compliance with those obligations.

The reporting entity must also have regard to the type and level of money laundering and terrorism financing risk (ML/TF) it is expected to face in its provision of the designated service, the nature, size and complexity of the third party's business, and the level of ML/TF risk in the country or jurisdiction in which the third party operates.

These reforms are intended to create efficiencies enabling industry to reduce some of the costs associated with conducting CDD, and are in line with recommendations from the Open Banking Review.

The reforms also respond to the *Report on the Statutory Review of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and Associated Rules and Regulations* ('the Statutory Review'), which recommended that reporting entities under the Act be given greater flexibility to rely upon CDD procedures undertaken by a broader range of Australian and foreign entities.

Reliance on third parties is expressly allowed for by the Financial Action Task Force (FATF). A number of other FATF member countries including New Zealand, Canada, the United States, Singapore and the United Kingdom have introduced similar reliance arrangements. For example, Singapore enables financial institutions to rely on related-third parties (including subsidiary, holding and related companies) if certain conditions are met. Similarly, reliance on a third party's CDD procedures is also permitted under section 17 of the United Kingdom's *Money Laundering Regulations 2007*, subject to the third party being an AML/CTF regulated entity under the European Union's Anti-Money Laundering Directive.

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PARLIAMENTARY INQUIRY SPOKEN QUESTION ON NOTICE

Senate Select Committee on Financial Technology and Regulatory Technology

28 February 2020

QoN Number: SCFTRT/002

Subject: Users of the Document verification system (DVS)

Asked by: Senator Andrew Bragg

Question:

CHAIR: Is that right? That's good. I want to talk about DVS. Who uses DVS now? Who is that service for?

Mr Hansford: The document verification system?

CHAIR: Yes.

Mr Hansford: I will get the specific list of people who applied for the regime. The premise is very similar—the reliance on document verification and the ability to do that in a much streamlined fashion.

CHAIR: Is it proposed that the access to DVS could be widened?

Mr Hansford: Yes. That's the intention.

CHAIR: A lot of the feedback we've received is that having some central form of truth in identification could be important, especially as open banking becomes open other things. I would be grateful for your thoughts on notice—

Mr Hansford: Sure.

CHAIR: on who—

Mr Hansford: Who uses the document verification system?

CHAIR: Who else might be able to use it within your current policy parameters.

Mr Hansford: Sure. No problem. We'll take that on notice.

Answer:

As at 31 January 2020, there are 1,177 organisations using the Document Verification Service (DVS). Of these 1,080 are private sector users.

DVS private sector users must meet a range of access criteria such as:

- being based in Australia and operating subject to the *Privacy Act 1988* (Cth), or being based in New Zealand and operating under the *Privacy Act 1993* (New Zealand);
- having a legal authority or requirement to collect, use and disclose personal information or another reasonable need to use the service; and
- obtaining a person's consent before seeking to verify their personal information via the service.

The DVS is used by businesses in the following industry sectors:

- banking and finance
- telecommunications
- real estate, conveyancing and legal services
- vehicle hire and equipment leasing
- energy and water utilities
- education and training
- accommodation and hospitality
- mining and construction
- retail and transport
- agriculture and forestry services, and
- health care and social assistance.