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Appearance before Senate Legal and Constitutional Affairs Legislation Committee
Anti-Money Laundering and Counter-Terrorism Financing Amendment Bill 2017
Public Hearing: 20 September 2017, Canberra, ACT.

Four questions on notice

Question 1

Senator PRATT: Thank you very much. I will begin by asking how many of your members engage in correspondent banking?

Mr O'Shaughnessy: I would have to actually take that on notice to give you an exact figure, but you can assume that the larger banks—the major banks and the larger institutions—will all have correspondent banking relations. Some of our smaller members are mutual banks, so they may not have the need to have established correspondent bank relationships.

Answer to question 1:

Of our 24 ABA members, the major banks and the larger banking institutions all have established correspondent banking relationships. Some of our smaller members, some of which are mutual banks, often do not have the need to have established correspondent bank relationships. For some smaller banks, international transfers and receipts for their customers can be processed via an arrangement with AUSTRAC regulated services like Western Union, or possibly via their corporate bank account with a larger domestic bank which does have the required correspondent banking relationship.

Question 2

Senator PRATT: But to confirm, you clearly support a prohibition on financial institutions entering into correspondent banking relationships with an institution that is able to enter into a correspondent banking relationship with a shell bank. I think you covered that in your submission. Did you cover that question?

Senator PRATT: We didn't cover that specific point. I'm afraid I can't answer that question now, but I'm happy to take it on notice.

Senator PRATT: So you will take on notice whether you support a requirement that financial institutions should be unable to enter into a correspondent banking relationship with an institution that can enter into a relationship with a shell bank. I don't know if you were here for the earlier evidence—

Mr O'Shaughnessy: I was, yes.

Answer to question 2:

The ABA remains fully supportive of the implementation of all 84 recommendations from the statutory review of the anti-money laundering and counter-terrorism financing regime and would welcome a statement from government that accepts and supports the adoption of all recommendations. The ABA and members will continue to work with the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), the Attorney-General's Department (**AGD**) and other stakeholders to help keep Australia safe from financial and other serious crime. Banks are just some of the 14,000 reporting entities (**REs**) that play a role in detecting, deterring and disrupting financial crime risks and threats that affect Australia's financial system.

Question 3

Senator PRATT: this morning when we were discussing the extent to which shell banks are or aren't covered by the existing legislation. Can you explain to me the current obligations in that regard?

Mr O'Shaughnessy: I'm afraid that's just not my area of expertise and it's probably another question I'd have to take on notice.

Answer to question 3:

The 2016 report arising from the AGDs Statutory Review of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and Associated Rules and Regulations states that financial institutions are prohibited from entering into correspondent banking relationships with another financial institution that has a correspondent banking relationship with a shell bank (Section 95 of the AML/CTF Act.). Financial institutions are also required to terminate a correspondent banking relationship if they become aware that a respondent bank has a correspondent banking relationships with a shell bank (Subsection 96(2) of the AML/CTF Act). However, financial institutions are not required to satisfy themselves that a respondent financial institution that they are entering into a correspondent banking relationship with does not permit its accounts to be used by shell banks. This is inconsistent with the FATF standards.

Question 4

Senator PRATT: Does the Bankers' Association support a requirement that financial institutions undertake specific due diligence in relation to payable through accounts—I think this comes back to my question about shell banking—consistent with FATF standards? Have you been discussing that with the minister, the department or AUSTRAC?

Mr O'Shaughnessy: I can confirm that I definitely haven't been discussing it with the department or the Minister. I'd actually have to take that question on notice.

Answer to question 4:

The ABA remains fully supportive of the implementation of all 84 recommendations from the statutory review of the anti-money laundering and counter-terrorism financing regime and would welcome a statement from government that accepts and supports the adoption of all recommendations. The ABA and members will continue to work with AUSTRAC, the AGD and other stakeholders to help keep Australia safe from financial and other serious crime. Banks are just some of the 14,000 reporting entities that play a role in detecting, deterring and disrupting financial crime risks and threats that affect Australia's financial system.

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25th September 2017.