



Fact Sheet

Why are anti-money laundering and counter-terrorism financing reforms required?

It is estimated that up to \$4.5 billion is involved in money laundering in Australia every year. Money laundering risks will continue to increase with commercial and technological developments. It was therefore crucial that Australia's anti-money laundering laws were adapted to a changing international security and commercial environment.

When Australia's existing primary anti-money laundering legislation, the *Financial Transaction Reports Act 1988* (FTR Act), was developed, most financial transactions were carried out face-to-face over the counter at financial institutions. Banking services were offered through manual passbooks at branches that were generally open only from Monday to Friday.

Electronic transactions, such as those conducted through ATMs, EFTPOS and telephone and online banking are rapidly replacing traditional banking and finance methods. In Australia today, fewer than 10 per cent of transactions are carried out in bank branches. In addition, wealth and portfolio management involving the development of more complex financial products now constitutes a much larger proportion of the work of the financial services sector.

Australia is not alone in experiencing these trends, as worldwide financial services compete to achieve greater efficiencies in the provision of services.

The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) takes into account extensive changes which have occurred in banking and financial services in Australia and overseas in recent years.

International developments that guided the reforms

International standards for preventing money laundering and terrorism financing are set by the Financial Action Task Force (FATF) which was established in 1989 in response to mounting international concern about money laundering. FATF is an intergovernmental body now comprising 33 member countries and organisations.

FATF has agreed to a set of Forty Recommendations on Anti-Money Laundering and Nine Special Recommendations on Counter-Terrorist Financing (the FATF Recommendations) which establish a framework for anti-money laundering and counter-terrorism financing efforts and provide recommendations covering the criminal justice system and law enforcement and the financial system and its regulation as well as measures to enhance international cooperation.

The FATF Recommendations provide a comprehensive and consistent framework of measures for combating money laundering and the financing of terrorism.

In October 2005, FATF evaluated the AML/CTF systems in place in Australia. The evaluation found that despite some strength in Australia's system there was still work which needed to be done. The FATF Recommendations provide the starting point for reforming Australia's anti-money laundering and counter-terrorism financing systems. The AML/CTF Act and AML/CTF Rules address key issues raised in the evaluation report.

The reforms ensure that the Australian financial sector and related businesses are able to compete in other countries that have implemented the FATF standards and will enhance the international reputation of individual companies and the Australian financial market in general.

Scope of the reforms

The reforms introduced by the AML/CTF Act are a major step towards bringing Australia into line with international best practice in detecting and deterring money laundering and terrorism financing.

They ensure Australia's financial sector remains hostile to criminal activity by providing law enforcement agencies with valuable sources of information to investigate and prosecute serious organised crime and terrorist activity.

Government and industry both agreed that the reforms were necessary to ensure Australia's full compliance with the international standards, including those set by FATF.

The reforms include a range of measures to enhance Australia's capacity to detect, prevent and combat money laundering and terrorism financing, including:

- strengthening and modernising procedures for businesses to identify their customers by adopting a flexible, technology-neutral approach to verifying identity
- maintaining and building on Australia's existing 'suspicious transaction' reporting requirements
- requiring businesses to develop AML/CTF programs to deal with specific risks, and
- ensuring that appropriate records are maintained to allow criminal activity to be traced and prosecuted.

Financial transaction reporting has already aided the successful prosecution of criminal offences in Australia. The new measures ensure that Australia's law enforcement keeps pace with national and international developments which create new opportunities for criminals and terrorist sympathisers to exploit the financial system.

The reform package represents the culmination of three years of development, planning and consultation by the Government. It ensures Australia's anti-money laundering and counter-terrorism financing laws and regulations comply with best international practice in combating these crimes, while avoiding undue burdens on industry and protecting the privacy of legitimate customers of Australia's financial services sector.

For more information:

Further information can be found at: www.ag.gov.au/aml