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Committee Secretary

Senate Legal and Constitutional Affairs Committee

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TI AUSTRALIA SUBMISSION TO THE LEGAL AND CONSTITUTIONAL AFFAIRS REFERENCE COMMITTEE INQUIRY INTO THE ADEQUACY AND EFFICACY OF AUSTRALIA'S ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING (AML/CTF) REGIME

Dear Secretary,

Transparency International Australia is pleased to submit some brief comments to the Committee's Inquiry on proposed amendments to Australia's Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) regime.

TIA has long been calling for the widening of our AML/CTF legislation.

We are pleased to see that momentum has built for this inquiry to be called, and a review is being taken of the adequacy and efficacy of Australia's AML/CTF regime to examine the institutional gaps that leave the nation highly exposed to money laundering (ML) and the flow of dirty money.

We welcome this consultation process to contribute to ensuring reforms will deliver the changes Australia needs to limit criminals prospering through our businesses and professions. Criminality finds opportunity, and Australia's weak AML/CTF system provides opportunity by non-adherence to the Financial Action Task Force's (FATF) recommendations (which themselves need updating), and to keep up with the variety of ways that money is laundered.

This is a critical opportunity for Australia to ensure that our AML/CTF regime makes a substantial impact, both nationally and globally, in preventing and detecting the flow of illicit funds – often the proceeds of crime and corruption – that, when laundered not only provide a cover of legitimacy, but also go back into the business of transnational organised crime.



SUMMARY TI AUSTRALIA POSITION

When examining the adequacy and efficacy of our AML/CTF regime the following needs to be considered:

- Australia is seen as an attractive destination for foreign proceeds, particularly corruption related proceeds flowing into real estate from the Asia-Pacific region, as well as from as far away as Africa and Russia¹.
- Australia has low compliance with the FATF recommendations.
- The Australian Transaction Reports and Analysis Centre (AUSTRAC) is entirely reliant on the information provided by reporting entities in order to detect money ML, financially motivated crime, and offences committed against the AML/CTF Act by those same reporting entities.
- The AUSTRAC collects data and intelligence from only a very small subset of those entities that are being used to commit or facilitate financially motivated crime and ML.
- Systemic and large-scale breaches have occurred undetected by the AUSTRAC. A significant amount of ML is now occurring in a wide variety of methods that are outside of the AUSTRAC's current capacity to detect
- Designated Non-Financial Businesses and Professions (DNFBPs) must be included in Australia's AML/CTF regime, to better detect and prevent ML/TF and other predicate crimes.
- Australia needs to urgently rectify existing deficiencies in AML/CTF regulation to prevent and detect ML and to respond to new areas of risk, such as those in digital currencies.
- To strengthen the regime, processes need to be in place that enable the pro-active collection of evidence and detection of repetitive selective reporting by entities.
- There needs to be a mentality beyond just compliance with the FATF recommendations (which themselves need to be updated), and instead a focus on keeping out criminally derived monies from the Australian economy.
- One of the key methods of identifying emerging ML/TF problems is to conduct a National Risk Assessment (NRA). Australia does not have a national policy which sets out what the overall AML/CTF system is meant to achieve, and how success would be monitored or measured. This makes it challenging to determine how well the ML/TF risks are being addressed.

¹ Connie Agius, 'Stash pad: How criminals are laundering their dirty cash in Australian real estate', *ABC*, 18th February 2018; <https://www.abc.net.au/radionational/programs/backgroundbriefing/money-laundering/9449470>



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- Agencies such as the AUSTRAC, the Australian Federal Police (AFP) and the Australian Securities and Investments Commission (ASIC) are provided adequate resources to enable them to handle ML/TF related offices and an increase in reporting entities.
- To support the AML/CTF regime, Australia needs to implement a publicly accessible centralised beneficial ownership register.

TRANSPARENCY INTERNATIONAL AUSTRALIA

TI Australia (TIA) is part of a global coalition to fight corruption and promote transparency, integrity and accountability at all levels and across all sectors of society, including in government. TIA was launched in March 1995 to raise awareness of corruption in Australia and to initiate moves to combat it. TIA believes that corruption is one of the greatest challenges of the contemporary world. Corruption undermines good government, distorts public policy, leads to the misallocation of resources, harms private and public sector development and particularly hurts the poor. It drives economic inequality and is a major barrier in poverty eradication. Tackling corruption is only possible with the cooperation of a wide range of stakeholders. We engage with the private sector, government and civil society to build *coalitions against corruption*. Coalitions against corruption will help shape a world in which government, politics, business, civil society and the daily lives of people are free of corruption.

TI Australia is the national chapter of [Transparency International \(TI\)](#), the global coalition against corruption, with a presence in over 100 countries.

TI Australia, is registered with the Australian Charities and Not-for-Profits Commission (ACNC).

TI AUSTRALIA POSITION

ATTRACTIVENESS OF AUSTRALIA AS A DESINATION OF PROCEEDS OF FOREIGN CRIME AND CORRUPTION

We welcome this consultation process to contribute to ensuring reforms deliver the changes necessary to prevent Australia continuing as a major destination of the world's dirty money.



AUSTRALIA'S AML/CTF REGIME

The FATF has said Australia is seen as an “attractive destination for foreign proceeds, particularly corruption-related proceeds flowing into real estate, from the Asia-Pacific”.² Our weak AML/CTF legislation and enforcement, favourable liquidation processes and a stable banking system creates a ‘perfect storm’ for criminals. Australia’s Doors are Wide Open.³ In addition, Australia has inadequate corporate regulatory systems which enables people who have been involved in corruption and other illegal activities to register companies in Australia, without any verification and checking if they and their business are bona-fide.

Individuals can register a company without adequate due diligence checks, beneficial ownership disclosure, identification of potential links to politically exposed persons, or a robust assessment of their business activities and legitimacy.⁴ This lack of transparency makes it easier for dishonest and criminal individuals to hide corruption, misconduct and crime, including ML, fraud, and embezzlement. It also provides a shroud of legitimacy which in turn can assist in securing bank accounts and credit/debit cards to further launder money.

A stronger corporate regulatory system requires greater transparency and proper due diligence. The Treasury’s [Modernising Business Registers \(MBR\) program](#) aims to improve the administration of business registers and unify the Australian Business Register and the 31 business registers held with the ASIC. This is long overdue and a welcomed step by TIA. It goes some way in addressing the flaws in the current system, such as the introduction of a Director Identification Number, but greater reform is required for it to be fit for purpose. It may assist in preventing phoenixing activities and tax evasion, but is a missed opportunity to really overhaul the system to address arguably the more important issue of having a reliable system for due diligence checks and to deter ML.

The real estate sector has continually been identified as a weak spot and a large compliance hole in Australia's AML/CTF regime.⁵ Large sums of illicit funds can be concealed and integrated into the legitimate economy through real estate. Criminals may be drawn to real estate as a channel to launder illicit funds due to the ability to buy real estate using cash, to disguise the ultimate beneficial ownership of real estate, the relative stability and reliability of real estate investments, and the opportunity to renovate and improve real estate, thereby increasing its value. To avoid direct involvement in ML

² FATF, Anti-money laundering and counter-terrorist financing measures Australia, Mutual Evaluation Report, April 2015; <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/mutual-evaluation-report-australia-2015.pdf>

³ Transparency International, Doors Wide Open: Corruption and Real Estate in Four Key Markets; https://images.transparencycdn.org/images/2017_DoorsWideOpen_EN.pdf

⁴ Transparency International Australia, A Stronger Corporate Registry, Position Paper; https://transparency.org.au/wp-content/uploads/2021/04/TIA-Position-Paper_-_Corporate-Registers_Final-5.pdf

⁵ API Magazine, Money Laundering Regulations Being Put Through the Wringer; <https://www.apimagazine.com.au/news/article/money-laundering-regulations-being-put-through-the-wringer/>



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processes, criminals may seek to buy property using a third party or family member as a legal owner, usually a 'cleanskin' with no prior criminal record. They may use loans or mortgages to layer and integrate illicit funds into high-value assets such as real estate.

The AUSTRAC said in a 2015 report that the laundering of illicit funds through real estate was "an established money laundering method in Australia", with \$1 billion in suspicious transactions coming from Chinese investors into Australian property in 2015-2016.⁶ The real estate sector has also been linked to foreign bribery. In 2017 the OECD Working Group on Bribery recommended that Australia needed to "address the risk that the Australian real estate sector could be used to launder the proceeds of foreign bribery".⁷

There are many high-profile examples demonstrating that Australia is a destination for proceeds of foreign crime and corruption. One such case is the Sudanese General James Hoth Mai Nguoth who purchased a A\$1.5 million house in his son's name in Victoria in 2014, despite earning just A\$60,000 a year in the Sudan People's Liberation Army.⁸ In the '[War Crimes Shouldn't Pay](#)' report, it was noted that top officials in South Sudan have "managed to accumulate fortunes, despite modest government salaries" while the country was divided by a civil war.⁹

Another case study is former Malaysian banker, Yeo Jiawei – who is currently incarcerated in Singapore for laundering money linked to the 1Malaysia Development Berhad (1MDB) scandal – reportedly used a foreign-based company to purchase properties costing A\$8.2 million on Queensland's Gold Coast.¹⁰ These case studies demonstrate how Australia has become an attractive destination for the proceeds of foreign crime and corruption, and a 'go-to' place to launder illicit money.

⁶ AUSTRAC, Strategic analysis brief Money laundering through Real Estate;

https://www.austrac.gov.au/sites/default/files/2019-07/sa-brief-real-estate_0.pdf

⁷ OECD, Australia takes major steps to combat foreign bribery, but OECD wants to see more enforcement;

<https://www.oecd.org/australia/australia-takes-major-steps-to-combat-foreign-bribery-but-oecd-wants-to-see-more-enforcement.htm>

⁸ Melissa Davey, 'South Sudanese general paid \$1.5m for Melbourne home, says war profiteering report', *The Guardian*, 15th September 2016; <https://www.theguardian.com/australia-news/2016/sep/15/south-sudanese-general-paid-15m-for-melbourne-home-says-war-profiteering-report>

⁹ The Sentry, War Crimes Shouldn't Pay: Stopping the looting and destruction in South Sudan;

https://cdn.thesentry.org/wp-content/uploads/2016/09/Sentry_WCSP_Finalx.pdf

¹⁰ Joshua Robertson, 'Banker caught up in Malaysian 1MDB scandal went on \$8.2m Gold Coast property splurge', *The Guardian*, 13th January 2017; <https://www.theguardian.com/australia-news/2017/jan/13/banker-caught-up-in-malaysian-1mdb-scandal-went-on-82m-gold-coast-property-splurge>



AUSTRAC'S RELIANCE UPON REPORTING

The AUSTRAC's detection, deterrence, disruption and regulatory functions make it reliant on the information provided by its 15,000 plus reporting entities. It requires this information in order to detect ML, financially motivated crime, as well as offences committed against the AML/CTF Act by those same reporting entities. If a reporting entity fails, (or deliberately decides not to) report threshold transactions or suspicious matter reports, the only mechanism the AUSTRAC has to identify these offences is through the limited range of reports that it receives from the entity committing the offence. Of the main ML methods in Australia, the AUSTRAC has listed only those that involve banking and alternative remittance could be reliably detected by the AUSTRAC using the data that it currently collects¹¹. The larger a reporting entity is, the more reliant the AUSTRAC is on their reporting, their know your customer (KYC) due diligence, and their levies. The recent media stories on large entities such as The Commonwealth Bank (CBA)¹², Westpac¹³, National Australia Bank (NAB), Crown Casino, The Star and SkyCity Entertainment Group¹⁴, is highly indicative that the structure of Australia's AML/CTF regime needs reform. This means both legislative reform of the AML/CTF Act, and changes to the AUSTRAC's operating model, scope and capacity to address ever changing ML techniques including those associated with digital currencies. Business-as-usual cannot continue.

The AUSTRAC only collects data and intelligence from only a very small subset of those entities that are being used to commit or facilitate financially-motivated crime and ML. For example, the AUSTRAC does not collect data or intelligence from entities engaged in, or related to import/export, sale/trade in high-value goods (e.g. luxury cars and boats)¹⁵, real estate/property development and cash-intensive/legitimate businesses.¹⁶ It also does not collect information from the agencies such as the Australian Customs Service (ACS), the Australian Taxation Office (ATO) or Police Forces. In 2006, the FATF identified that Trade-Based Money-Laundering (TBML) was likely to become the main

¹¹ AUSTRAC, Money Laundering in Australia 2011; <https://www.austrac.gov.au/business/how-comply-guidance-and-resources/guidance-resources/money-laundering-australia-2011>

¹² Matthew Doran and Michael Janda, 'Commonwealth Bank to pay \$700m fine for anti-money laundering, terror financing law breaches', *ABC*, 4th June 2018; [https://www.abc.net.au/news/2018-06-04/commonwealth-bank-pay-\\$700-million-fine-money-laundering-breach/9831064](https://www.abc.net.au/news/2018-06-04/commonwealth-bank-pay-$700-million-fine-money-laundering-breach/9831064)

¹³ David Chau, 'Westpac expects \$900 million penalty for breaching money laundering laws', *ABC*, 14th April 2020; <https://www.abc.net.au/news/2020-04-14/westpac-1.4-billion-hit-to-first-half-earnings/12146360>

¹⁴ Michael Janda and Rhiana Whitson, 'NAB, Crown, Star, SkyCity face AUSTRAC money laundering investigations', *ABC*, 7th June 2021; <https://www.abc.net.au/news/2021-06-07/nab-crown-face-austrac-money-laundering-investigations/100194862>

¹⁵ Transparency International, Tainted Treasures, Money Laundering Risks in Luxury Markets; <https://www.transparency.org/en/publications/tainted-treasures-money-laundering-risks-in-luxury-markets>

¹⁶ AUSTRAC, AML/CTF Act 2006 section 6, tables 1–3; <https://www.austrac.gov.au/glossary/designated-service>



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method of laundering as offender behaviour evolved in reaction to the FATF recommendations.¹⁷ In 2021 this seems to be precisely what has occurred, as payments are often being made through the movement of goods, not money, thereby passing current AML/CTF detection processes. The latest FATF report on TBML highlights how “TBML remains a profound and significant risk” due to the dynamic nature of international trade, including the diversity of tradable goods and services, the involvement of multiple parties, and the speed of trade transactions.¹⁸ We commend the government for recognising that collaboration is key to combatting TBML, by the Fintell Alliance establishing a TBML working group.¹⁹ The detection of this type of ML will require the combination of information from a range of sources currently not collected by the AUSTRAC – including information held by the ACS, import/export companies, high-value goods dealers and the ATO. The detection of this TBML will require the combining information from a range of sources currently not routinely collected and combined by any agency. The AUSTRAC would be the natural choice for this function.

The AUSTRAC, and many other financial intelligence units around the world have been aware for many years that relying on banks to be the primary means of detecting ML is far from a sensible approach.²⁰ Firstly, banks are conflicted – some of their most profitable customers are likely criminals, and some individuals in banks may be tempted over-report matters that are not-so-profitable and not so suspicious, in order to bolster statistics and provide cover for those customers that they don't want to report. In addition, Australian Police Forces (as with most other countries) are entirely overwhelmed by the volume of suspicious matter/suspicious transaction reports that they receive. The AUSTRAC also fails to make public any research it might be conducting to assess the effectiveness of the existing AML/CTF regime, and how seriously reporting entities are taking their obligations. In the absence of such publications, it is not possible to know if the AUSTRAC is conducting such research. If it has been conducted, it is impossible to assess the quality of the work as it has not been made public.

There is also the risk given the reliance on commercial databases by reporting entities to identify high-risk customers, as these databases can often have missing or incorrect data. The FATF have said commercial databases are “not necessarily comprehensive or reliable as they generally draw solely from information that is publicly available and thus the subscribing financial institutions or DNFBPs have no way of verifying the accuracy, comprehensiveness and/or quality of the information contained

¹⁷ FATF, Trade-Based Money Laundering 2006; <https://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html>

¹⁸ FATF, Trade-Based Money Laundering: Trends and Developments 2020; <https://www.fatf-gafi.org/media/fatf/content/Trade-Based-Money-Laundering-Trends-and-Developments.pdf>

¹⁹ AUSTRAC, Collaboration is key to combating trade-based money laundering; <https://www.austrac.gov.au/collaboration-key-combating-trade-based-money-laundering>

²⁰ Transparency International, What Australia can do to stop money laundering; <https://transparency.org.au/what-australia-can-do-to-stop-money-laundering/>



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in the databases”.²¹ We recommend that the AUSTRAC should either develop a database for reporting entities – funded from fees charged on reporting entities – or should at least audit the commercial databases. The AUSTRAC could be required to certify that such databases are fit-for-purpose, and only certified databases can be used by reporting entities to supplement their formal KYC and due diligence processes.

The above demonstrates how the AUSTRAC's is reliant on the information provided by its reporting entities.

EXTENT TO WHICH AUSTRALIA'S AML/CTF ARRANGEMENTS COULD BE STRENGTHENED TO IDENTIFY WEAKNESSES BEFORE SYSTEMIC OR LARGE-SCALE AML/CTF BREACHES OCCUR

Criminality finds opportunity. Australia's system provides opportunity through its inability to meet the FATF recommendations and to keep up with emerging ML issues and with the variety of ways that money is laundered. Systemic and large-scale breaches have occurred – undetected by the AUSTRAC in recent years. If corporate reporting entities believe they will not be caught, they are at risk of not complying. Cases such as Westpac²², Crown Casino²³ and Operation Ironside²⁴ provide examples of what has not been picked up through the current AML/CTF structures. To strengthen the regime, processes need to be in place that enable the pro-active collection of evidence and detection of repetitive selective reporting by entities.

Australia has been considering passing the second tranche of its AML/CTF Act since 2006.²⁵ Australia must extend the AML/CTF legislation to cover DNFBP professions as the current rules are not enough to prevent ML/TF. This issue will be discussed later in the submission in greater detail. It is of vital importance a variety of different entities are reporting to help the regulators piece together information. The FATF has called for Australia to ensure lawyers, accountants, real estate agents, precious stones dealers, and trust and company service providers understand their ML/TF risks, and are required to effectively implement AML/CTF obligations and risk mitigating measures in line with the FATF

²¹ FATF Guidance, Politically Exposed Persons, p.15; <https://www.fatf-gafi.org/media/fatf/documents/recommendations/guidance-pep-rec12-22.pdf>

²² David Chau, 'Westpac expects \$900 million penalty for breaching money laundering laws', *ABC*, 14th April 2020; <https://www.abc.net.au/news/2020-04-14/westpac-1.4-billion-hit-to-first-half-earnings/12146360>

²³ Rebecca Turner, 'Crown chief financial officer knew of money laundering 'red flag' but can't remember taking any action, royal commission hear', *ABC*, 11th August 2021; <https://www.abc.net.au/news/2021-08-11/perth-casino-royal-commission-hears-from-crown-cfo-alan-mcgregor/100355412>

²⁴ AFP, Smashing Criminal Networks; <https://online.afp.gov.au/ironside>

²⁵ AUSTRAC, AML/CTF Act; <https://www.austrac.gov.au/business/legislation/amlctf-act>



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Standards.²⁶ The 2019 FATF visit to review the fourth-round mutual evaluation, that got cancelled, was expected to condemn Australia for becoming a laggard in the Asia-Pacific region on ML reform. We recommend that relevant agencies such as the AUSTRAC, the AFP and the ASIC are provided adequate resources to enable them to handle ML/TF related offices. At present, AUSTRAC is unable to detect non-compliance among the 15,000 plus entities that it currently regulates, so additional resources will definitely be required as there is extension of the AML/CTF regime to DNFBPs.

To support the AML/CTF regime, Australia needs to also implement a publicly accessible centralised beneficial ownership register. The FATF acknowledges the importance of beneficial ownership information as a preventative measure to ML/TF. They recommend that countries should have “adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely manner”.²⁷ The FATF have also recently undertaken a public consultation considering revisions to recommendation 24, with the objective of strengthening the international standard on beneficial ownership and to take more effective action to mitigate the risks of misuse.²⁸ Both TIA and TI have [submitted responses](#) to this inquiry.

It is widely acknowledged that anonymously-owned companies are one of the key tools used by money launders to hide their assets – and public registers are a way of making this more difficult. For example the EU's 5th AML Directive requires all Member States to set up a centralised register of beneficial ownership and make this information available to the public.²⁹ Australia has made numerous commitments to progress beneficial ownership disclosure on the global stage, but with no progress.³⁰ There has been a concerning lack of political will to implement commitments made at the 2014 G20 (High-Level Principles on Beneficial Ownership)³¹, the 2016 UK Anti-Corruption Summit³² and the 2018 International Anti-Corruption Conference³³. Civil society and private sector efforts to

²⁶ FATF, Anti-money laundering and counter-terrorist financing measures Australia Mutual Evaluation Report; <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/Mutual-Evaluation-Report-Australia-2015.pdf>

²⁷ FATF Guidance, Transparency and Beneficial Ownership; <https://www.fatf-gafi.org/media/fatf/documents/reports/guidance-transparency-beneficial-ownership.pdf>

²⁸ FATF, Revisions to Recommendation 24 - White Paper for Public Consultation; <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/white-paper-r24.html>

²⁹ FATF Mutual Evaluation Report 2015, Anti-money laundering and countering the financing of terrorism; https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-countering-financing-terrorism_en

³⁰ Transparency International Australia, Position Paper, Beneficial Ownership; <https://transparency.org.au/position-paper-beneficialownership/>

³¹ Attorney-General's Department, Australian Government, G20 High-Level Principles on Beneficial Ownership Transparency; <https://www.ag.gov.au/sites/default/files/2020->

³² UK Government, Anti-Corruption Summit London 2016; <https://www.gov.uk/government/topical-events/anti-corruption-summitlondon-2016/about>

³³ International Anti-Corruption Conference 2018 in Copenhagen, National anti-corruption statement, Australia; https://iaccmonitor.org/wp-content/uploads/2020/08/Australia_National_Statement_2018.pdf



include beneficial ownership disclosure in the third Open Government Partnership National Action Plan were also rejected by Federal Treasury. There has also been no information released about what the Australian Government intends to do about beneficial ownership transparency as part of the MBR program. The last consultation process on the issue was held in early 2017.³⁴ Progress on this issue is now long overdue, and needs to be seen as a contributing tool in tackling ML and the illicit flow of dirty money.

The above measures need to be implemented to identify weaknesses before systemic or large-scale AML/CTF breaches occur.

EFFECTIVENESS OF THE AML/CTF ACT 2006 TO PREVENT MONEY LAUNDERING OUTSIDE THE BANKING SECTOR

To date, Australia's AML/CTF Act has not been effective in preventing ML outside of the banking sector, and the high-profile cases of CBA, Westpac and NAB, indicate ML still occurs within the banking sector. It is clear there is a need to extend AML/CTF regulation to other services that pose high ML/TF risks, otherwise Australia's AML regime will remain ineffective and our doors wide open. The AUSTRAC recognises real estate, gaming, luxury goods, international trade, cash intensive businesses, moving property across borders, concealing money or other properties domestically are all common ML techniques. Yet despite this understanding, the AUSTRAC does not routinely collect, combine and analyse data, or engage in activities, that would result in effective detection of ML through these methods.

The recent reports on Crown Casino demonstrate the case for how poorly the system has performed outside of the banking sector, and even within a sector that is covered by Australia's AML legislation. For example, it was reported that between 2005 and 2013 Dan Bai Shun Jin, who is allegedly under investigation in Australia and The United States for ML activities, managed to turn over A\$855 million at Crown Casino.³⁵ It is also claimed Mr Jin made more than \$140 million chip 'buy-ins' at the casino since 2010 and had used multiple identity documents, including six Australian passports. Mr Jin claimed that he earned a base salary in China of US\$300,000 with bonuses and shares.

³⁴ Treasury, Anti-Money Laundering in Digital Currencies, Treasury, Increasing transparency of the beneficial ownership of companies; <https://treasury.gov.au/consultation/increasingtransparency-of-the-beneficial-ownership-of-companies>

³⁵ Tom Cowie, 'Suspected Chinese-Australian money launderer gambled 'astronomical' \$850m at Crown Casino', *The Age*, 16 September 2016; <http://www.theage.com.au/victoria/suspected-chinese-australian-money-launderer-gambled-astronomical-850m-at-crown-casino-20160916-grhuvj.html>



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This calls into question at what point did Crown Casino detect this suspicious activity and report it to the AUSTRAC, and how long did the activity go undetected, unreported and not acted upon. What did Crown Casino do to check the source of the funds Mr Jin was gambling with?

Crown Casino has been criticised in the media for hosting Wei Seng 'Paul' Phua, a Malaysian gambling industry businessman with alleged links to the Asian crime syndicate 14K Triad.³⁶ Peter Tan Hoang was murdered in 2014 in the wake of an investigation into an international drug and ML syndicate that saw more than \$1 billion in suspect money pass through Crown Casino over a 12-year period to 2012.³⁷ Mr Hoang was reportedly allowed to gamble under four different names, Pete Hoang, James Ho, John Ho and Patrick Lu. He also received perks, including overseas holidays and cash gifts of as much as A\$100,000, as well as gambling 'commissions' in the hundreds of thousands of dollars.³⁸ He had been banned from the Star Casino in Sydney in 2001, so it is a significant question why Crown Casino welcomed him.³⁹ Later, he was also banned from Sydney's Star Casino and Jupiter's Casino in Brisbane in May 2012.⁴⁰ Despite these bans, he had been able to purchase A\$75 million of gambling chips at Crown Casino between 2000 and 2012.⁴¹ The Victorian Royal Commission exposed that Crown Casino was also issuing invoices for non-existent rooms at its hotel, to allow customers to by-pass legal controls on the transfer of funds from overseas to the Casino.⁴² It has also been alleged in the media that a significant amount of Crown's gambling chips are being seized during drug trafficking investigations, presumably being used in ML activities. In 2014, Victoria Police's Operation Volante seized A\$600,000 in chips after smashing a 26-person drug ring.⁴³ The operation found the funds used to obtain the Crown Casino chips were "derived from the sale of heroin".⁴⁴ It was reported that in one case an offender was able to transfer \$300,000 into a Crown Casino betting account in defiance of a court freezing order, and had the sum converted to gambling

³⁶ Chris Vedelago and Cameron Houston, 'Crown Casino haven for drug traffickers, 'a blot on the community'', *The Sunday Age*, 7 February 2016, <http://www.smh.com.au/business/crown-casino-haven-for-drug-traffickers-a-blot-on-the-community-20160206-gmnce7.html>

³⁷ Ibid. and Dylan Welch, 'Drug trafficker and high roller Pete Tan Hoang laundered up to \$1 billion through Melbourne's Crown Casino before being shot in the face', *ABC News*, 12 December 2014; <https://www.abc.net.au/news/2014-12-11/pete-tan-hoang-ran-up-to-1-billion-dollars-through-crown-casino/5960678>

³⁸ Dylan Welch, 'Drug trafficker and high roller Pete Tan Hoang laundered up to \$1 billion through Melbourne's Crown Casino before being shot in the face', *ABC News*, 12 December 2014.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Eminetra, 'The whole thing was a fraudulent scam', Crown royal commission chief; <https://eminetra.com.au/the-whole-thing-was-a-fraudulent-scam-crown-royal-commission-chief/192176/>

⁴³ Chris Vedelago and Cameron Houston, 'Crown Casino haven for drug traffickers, 'a blot on the community'', *The Sunday Age*, 7 February 2016; <http://www.smh.com.au/business/crown-casino-haven-for-drug-traffickers-a-blot-on-the-community-20160206-gmnce7.html>

⁴⁴ Ibid.



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chips, calling into serious question the effectiveness of Crown Casino's AML detection systems.⁴⁵ The AFP were able to obtain a seizure order against a Lamborghini Aventador coupé purchased by Ming Qing Wang through an account set up by Crown Casino.⁴⁶ The AFP acted on suspicion that the vehicle may have been bought using "proceeds or an instrument of the crimes of ML or tax avoidance occurring during gambling activity on casino junket tours" according to Supreme Court of Victoria Justice Rita Zammit.⁴⁷ Crown Casino was also criticised in February 2016 by Judge Michael McInerney for not taking adequate steps to prevent drug dealing at the Casino. The Judge was reported as saying: "What type of security they institute I fail to understand, for this type of activity to be able to be taking place so freely at the casino. I make that remark in general because over the last week and a half, nearly every case relevant to this 'syndicate' has involved dealings and exchange of monies at the Casino."⁴⁸ The case of Crown Casino demonstrates the how poorly the AML/CTF system has performed outside of the banking sector.

Another gap in the system is how the AUSTRAC collects threshold suspicious transaction reports on international funds transfers and cash, but does not collect the equivalent data on transactions using a debit or credit card. Information and data collected by the AUSTRAC and other global regulators, is not keeping pace with changes in technology, and virtual currencies and electronic platforms which do not easily fit within existing legal principles.⁴⁹ In the last two years, the FATF amended guidance surrounding growing ML risks in virtual assets – such as digital currency, stating only international cooperation can tackle the problem given the cross-border nature of virtual asset service providers' activities.⁵⁰ Australia's introduction of a \$10,000 cash limit for transactions between businesses and individuals may decrease the risk of ML in cash, but ML risks associated with digital currencies will continue and increase through displacement from the cash economy.⁵¹ Digital currencies can be a

⁴⁵ Ibid.

⁴⁶ Sarah Danckert, 'The Chinese gamblers ploughing millions into Crown Casino', *The Sydney Morning Herald*, 21 October 2016; <https://www.smh.com.au/business/the-chinese-gamblers-ploughing-millions-into-crown-casino-20161021-gs7hwu.html>

⁴⁷ Ibid.

⁴⁸ Chris Vedelago and Cameron Houston, 'Crown Casino haven for drug traffickers, 'a blot on the community'', *The Sunday Age*, 7 February 2016, <http://www.smh.com.au/business/crown-casino-haven-for-drug-traffickers-a-blot-on-the-community-20160206-gmnce7.html>

⁴⁹ Transparency International Australia, Digital Currencies Position Paper; https://transparency.org.au/wp-content/uploads/2020/04/TIA-position-paper_digital-currencies.pdf

⁵⁰ FATF, Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers; https://transparency.org.au/wp-content/uploads/2020/04/TIA-position-paper_digital-currencies.pdf

⁵¹ Transparency International, Currency (Restrictions on the Use of Cash Bill) 2019 and the draft Currency (Restrictions on the Use of Cash – Excepted Transactions) Instrument 2019; https://transparency.org.au/wp-content/uploads/2020/04/TIA-position-paper_digital-currencies.pdf



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magnet for ML and criminal conduct. Liberty Reserve ⁵² and Silk Road ⁵³, are internet platform examples where illegal goods and services were purchased using digital currencies preserving anonymity and disguising funds' origins. In June 2019, Facebook announced 'Libra', a digital private currency using blockchain technology, with 'Calibra' its digital wallet.⁵⁴ Facebook's intention are to make funds easily accessible across the globe by anyone with a mobile phone or access to the internet.⁵⁵ Given global regulation is not keeping pace with changes in technology, and virtual currencies and electronic platforms do not easily fit within existing legal principles, how can this mega currency platform be regulated to detect ML and illicit financial flows? ⁵⁶ Digital currencies that allow anonymity, even if based on legitimate funds, can also be used for illegal activities, such as for payment of child exploitation material online. Regulation of digital currency exchanges in Australia is not as robust as it should be with the major weakness being regulation at the point where digital currency intersects with the mainstream financial system, i.e. exchange of digital currency to legal tender. Unlike remittance dealers, the AUSTRAC, does not regulate the operation of digital electronic platforms where currencies convert. This means if the exchange operates outside of the required geographical link with Australia or it uses a platform offered in Australia from overseas, it is arguably not covered by the AML/CTF Act requirements. Digital to digital conversion is not covered at all. It is unlikely that the FATF alone can provide such a response as it relies on national authorities for implementing AML/CTF rules in their jurisdictions through national laws, whilst the FATF promotes global implementation of its standards. ⁵⁷

The above examples demonstrate how Australia's AML/CTF Act overall has not been effective in preventing ML outside of the banking sector.

⁵² United Nations Office on Drugs and Crime; https://sherloc.unodc.org/cld/case-lawdoc/cybercrimecrimetype/usa/2014/us_v_liberty_reserve_et_al..html

⁵³ Ibid.

⁵⁴ Richard Chesley and Oksana Koltko Rosaluk, 'The Libra Digital Currency Project: The (Long) Path Forward'; <https://www.israelglobalgateway.com/2019/10/the-libra-digital-currency-project-the-long-path-forward/>

⁵⁵ Ibid.

⁵⁶ Facebook is to pay a record fine of USD5 billion levied by the Federal Trade Commission for breach of its consumers' privacy, including the use by Cambridge Analytica of personal data obtained from Facebook: see <https://www.bbc.com/news/business-49099364>

⁵⁷ Treasury, Anti-Money Laundering in Digital Currencies, Increasing transparency of the beneficial ownership of companies; <https://treasury.gov.au/consultation/increasingtransparency-of-the-beneficial-ownership-of-companies>



AUSTRALIA'S COMPLIANCE WITH THE FATF RECOMMENDATIONS

Overall, Australia has low compliance with the FATF recommendations. Australia was deemed 'compliant' for 17 and 'largely compliant' for 9 of the FATF 40 Recommendations. It was deemed 'highly effective' for 1 and 'substantially effective' for 4 of the 'effectiveness & technical compliance' ratings.⁵⁸ Australia should not use the COVID-19 pandemic as a reason to further delay the proposed Tranche 2 reforms as the Global Financial Crisis was in 2010. As in any crisis, COVID-19 has heightened corruption risks that increase the likelihood of ML and TF.⁵⁹

The FATF has noted Australia does not have a national policy setting out what the overall AML/CTF system is meant to achieve, or how its success should be monitored or measured, making it challenging to determine how well the ML/TF risks are being addressed. The AUSTRAC is intended to be the entity that informs all government agencies how ML occurs in Australia. As per the FATF Guidance, we recommend Australia undertakes a full NRA of its ML/TF risks.⁶⁰ This is a comprehensive process which helps a country identify, assess, and understand the risks that arise from vulnerabilities that facilitate ML. The NRA process includes determining the most revenue-generating criminal activities in the country, assessing financial and private sectors' vulnerability to ML, identifying the controls and weaknesses of the criminal justice system and evaluating the effectiveness of the fight against money allocation of resources according to the level of risk. For example, the UK's latest NRA report on ML/TF was published on December 17th 2020, and referenced pandemic processes and the critical legal changes the UK has experienced in financial crimes over the previous three years.⁶¹

The FATF have also recognised that non-regulation of DNFBPs generates a significant gap in Australia's AML/CTF regime that provides opportunities for criminals to misuse DNFBP services to launder illicit funds.⁶² The assessment team during the 2015 Mutual Evaluation Report flagged their concern about the extent to which non-regulated DNFBPs understood their ML/TF risks. Some

⁵⁸ Know Your Country, Australia; <https://www.knowyourcountry.com/australia1111>

⁵⁹ Taking Care of Our Democracy; <https://transparency.org.au/covid-19-response-and-the-health-of-our-democracy/>

⁶⁰ FATF Guidance, National Money Laundering and Terrorist Financing Risk Assessment; https://www.fedsfm.ru/content/files/documents/fatf/national_ml_tf_risk_assessment.pdf

⁶¹ UK Government, National risk assessment of money laundering and terrorist financing 2020; <https://www.gov.uk/government/publications/national-risk-assessment-of-money-laundering-and-terrorist-financing-2020>

⁶² FATF, Anti-money laundering and counter-terrorist financing measures – Australia; <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/5-Preventive-Measures-Mutual-Evaluation-Australia-2015.pdf>



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DNFBP representatives who met with the FATF assessment team during the on-site visit asserted that the ML/TF risk posed by their respective sectors was low.⁶³

The FATF has also said additional measures need to be taken, including imposing AML/CTF obligations on those who create and register legal persons and arrangements, in order to strengthen the collection and availability of beneficial ownership information.⁶⁴ Legal persons and arrangements remain very attractive for criminals to misuse for ML and TF. There are current loopholes in the system that allow non-licensed third-party providers to sell nominee director or shareholder services, ensuring that the real identities and ultimate beneficiaries are kept hidden, allowing opaque business structures to flourish. For example, ARDCS, a Gold Coast (Queensland Australia), based company provides 'Resident Director Services' allowing international companies to purchase nominee directors. As quoted from their website, for a cheap price you can ensure "a cost-effective and seamless solution" to overcome the "major hurdle" that the "director residency rule" can be for overseas businesses wishing to establish in Australia.⁶⁵ This is one of many nominee service providers available in Australia, that promotes the confidentiality of their services. There are also examples of law firms that provide 'back door' ASX listing services. This offers a veil of legitimacy, particular for companies registered in Australia to then operate abroad where assumptions are made that due diligence checks have been done. [Here](#) is an example of the service currently advertised by an Australian Law Firm.

As demonstrated, Australia has low compliance with the FATF recommendations.

EXTENT TO WHICH ADHERENCE WITH FATF RECOMMENDATIONS PREVENTS SYSTEMIC AND REPUTATIONAL RISK TO AUSTRALIA, THE ECONOMY AND OUR CAPACITY TO ACCESS INTERNATIONAL CAPITAL

Australia is falling behind in addressing ML/TF. We are long way from the 1980s, when Australia became one of the first countries to adopt AML laws and joined a small group of countries in the FATF, taking the lead in identifying appropriate measures to combat ML. We recommend that the government develops a mentality beyond just compliance with the FATF recommendations (which themselves need to be updated), and instead focuses on keeping out criminally derived monies from the Australian economy. In order to achieve this, Australia needs to consider that compliance with the recommendations does not have a strong correlation with the systemic risk of ML/TF. This is because the FATF recommendations do not address the methods of ML that are most frequently used. A recent

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Australia Resident Director and Corporate Services; <https://www.ardcs.com.au/>



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study suggests that the FATF recommendations' effectiveness in identifying instances of laundering the proceeds of corruption, is limited because of the deeply rooted system vulnerabilities and the rapid changes in ML trends.⁶⁶ Similarly, compliance, or non-compliance with the recommendations has little relevance to reputational risk. Compliance with the recommendations has been substantially achieved by all of the major ML centres in the world. The only countries currently blacklisted by the FATF are North Korea and Iran which is related to them not having access to the international banking system.⁶⁷ The countries that suffer any significant harm by failing to implement the FATF recommendations are often small developing economies that are not significant to international trade. As the 13th largest economy in the world – regardless of whether Australia makes any changes to its AML/CTF legislation or not – it is highly unlikely to be placed on the FATF grey-list. Even if it was, Australia's access to the international banking system, the economy or access to international capital would unlikely be affected, because of the significant levels of trade that Australia does with the other large economies of the world. The reason for this is that the FATF's method of admonishing jurisdictions who don't comply is to ask other jurisdictions to ask their banks to conduct enhanced due diligence on the transactions that they conduct. This, of course, only works if the countries and banks involved are willing to comply. If compliance with the FATF request interferes with trade or costs the country too much, then the FATF's request is likely to be ignored. Despite this, Australia should be taking the lead in identifying appropriate measures to combat ML to prevent illicit financial flows entering the country. This includes both meeting and going beyond FATF's compliance recommendations.

Australia needs to urgently rectify existing deficiencies in AML/CTF regulation and make the economy more resilient to risks, such as those in digital currencies. Australia no longer holds a reputation as a leader in the AML/CTF space. Insights should be taken from the Tranche 2 reforms of the last few years in New Zealand ⁶⁸ and comparative jurisdictions. The Tax Justice Network Financial Secrecy Index 2020 ranks Australia 48th due to a failure to stop illicit funds finding a safe haven in Australia, and AML laws missing Tranche 2.⁶⁹ The US State Department listed Australia as a "primary jurisdiction of concern" when it comes to ML in the International Narcotics Control

⁶⁶ The FATF and Money Laundering: Critical analysis of the Panama papers and the role of the United Kingdom, Journal of Money Laundering Control; <https://www.emerald.com/insight/1368-5201.htm>

⁶⁷ Tax Justice Network Financial Secrecy Index 2020; <http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/call-for-action-february-2020.html>

⁶⁸ Department of Internal Affairs, New Zealand Government; <https://www.dia.govt.nz/AML-CFT-Information-for-Businesses>

⁶⁹ Financial Secrecy Index 2020; <https://fsi.taxjustice.net/PDF/Australia.pdf>



Strategy Report 2014.⁷⁰ The recent release of the UN recommendations 'High Level Panel on International Financial Accountability, Transparency and Integrity (FACTI) for Achieving the 2030 Agenda' demonstrates a global shift to focusing on preventing financial crimes in developed countries to work towards achieving the Sustainable Development Goals.⁷¹ Australia needs to keep up with global developments to prevent it becoming even more of a hotspot for the world's dirty money.

REGULATORY IMPACT/COSTS/BENEFITS OF EXTENDING AML/CTF REPORTING OBLIGATIONS TO DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPs)

Australia is one of only 8% of countries assessed by the FATF's 4th Mutual Evaluation process as being totally non-compliant with all DNFBP Recommendations.⁷² Australia has been non-compliant with all three DNFBP recommendations for the longest period since deficiencies were identified by the FATF's 4th Round Mutual Evaluation in 2015.⁷³ Most stakeholders view the extension of the AML/CTF regime to DNFBPs as positive, as the inclusion of DNFBPs will go some way to address the disproportionate focus on one set of gatekeepers. The inclusion of DNFBPs within an AML/CTF regime will increase the level of reporting to the AUSTRAC, and the information and intelligence dividend that will support authorities to identify and tackle ML/TF and the aligned predicate offences. The Law Council is one body who is not supportive of the reform.⁷⁴

Currently financial institutions bear the brunt of the regulatory burden, for scrutinising customers and their transactions for potential ML/TF. We need a broader approach to tackling ML, so the compliance burdened isn't solely shouldered by financial institutions. Existing reporting entities, including those in the financial sector, would welcome these measures as it would help them in complying with their own obligations, creating greater ease in performing customer due diligence and increasing the number of reporting entities.⁷⁵ Increasingly, customers are being identified remotely, providing ease of on

⁷⁰ US Department of State, 2014 International Narcotics Control Strategy Report; <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2014/index.htm#:~:text=The%202014%20International%20Narcotics%20Control,trade%20in%20Calendar%20Year%202013>.

⁷¹ United Nations, Panel: End financial abuses to save people and planet; <https://www.un.org/en/desa/un-panel-end-financial-abuses-save-people-and-planet>

⁷² Initialism, A Tranche Too Hard? The AML/CTF Regulation of Australian Designated Non-Financial Businesses and Professions; <https://initialism.com.au/wp-content/uploads/Initialism-Tranche-Too-Hard-White-Paper-Downloadable-FINAL-lowres.pdf>

⁷³ Ibid.

⁷⁴ Law Council, Tranche Two Reforms and Consultation; <https://www.lawcouncil.asn.au/policy-agenda/regulation-of-the-profession-and-ethics/anti-money-laundering/tranche-two-reforms-and-consultation>

⁷⁵ Regulation Asia, The Need for Tranche 2 AML Reform in Australia; <https://www.regulationasia.com/the-need-for-tranche-2-aml-reform-in-australia/>



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boarding and operational efficiency for banks. However, the provision of legal, accounting and real estate services remains personal, often requiring face-to-face contact or the exchange of large volumes of information to enable these services to be provided. This is exactly the information which is useful to financial institutions and ultimately the regulator. Such examples include:

- Legal structures having been set up by a lawyer, enabling identification of beneficial ownership;
- Audited accounts, allowing a better understanding of source of funds and source of wealth and;
- Documentation about the sale and purchase of property being exchanged, enabling an assessment of how funds are transacted and what assets are held.

To date, the strongest argument against the imposition of Tranche 2 on gatekeepers is the adverse compliance burden it would have on smaller entities or sole operators who provide these services. There remain avenues open to prevent or at least ease this burden through assisted compliance. Whilst the AML/CTF obligations will most likely be the same for financial businesses and DNFBPs, in reality the approach to AML/CTF compliance in a number of areas may be very different. The exemption process available under section 229 of the AML/CTF Act will potentially allow each DNFBP sector to refine their obligations under the AML/CTF Rules and gain relief from parts of the legislation that are irrelevant and/or inappropriate.⁷⁶ This could be based on the type of activity undertaken by the DNFBP sector and the nature of the ML/TF risks faced. The government could also limit the population that would initially be regulated, and could also consider adopting a flexible time period within which firms are required to comply (assisted compliance).

For DNFBPs to be covered by the AML/CTF regime in Australia, it requires a simple amendment to the AML/CTF Act 2006 to include additional designated services. A similar approach was adopted for the digital currency exchanges in 2017/18⁷⁷ and could be applied to DNFBPs, followed by an appropriate consultation period to work with each DNFBP sector to bring them fully into Australia's AML/CTF regime.

The challenges facing the DNFBP sectors to become AML/CTF compliant are not insurmountable, they will take careful consideration and therefore time to address. However, they can only really be addressed once there is regulatory certainty, as only at this point will most DNFBP parties be prepared

⁷⁶ Federal Register of Legislation, Anti-Money Laundering and Counter-Terrorism Financing Act 2006 p.329; <https://www.legislation.gov.au/Details/C2021C00243>

⁷⁷ AUSTRAC, New Australian laws to regulate cryptocurrency providers; <https://www.austrac.gov.au/new-australian-laws-regulate-cryptocurrency-providers>



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to engage and devote appropriate levels of time and resources to address the challenges. Addressing the challenges to ensure effective compliance will take cooperation from both within DNFBPs, as well as wider industry and regulatory stakeholders. This includes industry associations, major players in each DNFBP sector, vendors, and service providers, as well as other reporting entities that provide services to DNFBPs, and the AUSTRAC. It also enables deeper consideration of the regulator's expectations and how such processes can be made sustainable within existing business structures.

One concern we have is that the AUSTRAC is currently unable to detect non-compliance among the 15,000 plus entities that it currently regulates. The addition of several hundred thousand more entities is unlikely to result in a reduction in crime, unless those additional entities perceive a risk that the AUSTRAC will detect and punish non-compliance. This would take the allocation of significant additional resources to the AUSTRAC to build its capacity.

The inclusion of DNFBPs is a vital part of any country's AML/CTF regime and is long overdue for attention in Australia.

CONCLUSION

In summary, TIA calls for the widening our AML/CTF legislation.

Australia needs to keep up with global developments to prevent it becoming even more of a hotspot for the world's dirty money. In order to help achieve this, the Committee is encouraged to consider the following:

- Australia is an attractive destination for corruption-related proceeds;
- Australia has low compliance with the FATF recommendations;
- The AUSTRAC is entirely reliant on the information provided by reporting entities;
- The AUSTRAC collects intelligence from only a very small subset of those entities that are being used to commit ML;
- Systemic and large-scale breaches have occurred undetected by the AUSTRAC;
- ML is now occurring in a wide variety of methods that are outside of the AUSTRAC's current capacity to detect;
- Rectifying existing deficiencies in AML/CTF regulation and make the economy more resilient to risks;
- Pro-active collection of evidence and detection of repetitive selective reporting by entities;



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- Going beyond compliance with the FATF recommendations and instead focusing on keeping illicit money out of Australia;
- Conducting a NRA;
- Bringing DNFBPs into Australia's AML/CTF regime;
- Adequate resourcing for agencies such as the AUSTRAC, the AFP and the ASIC and;
- Implementing a publicly accessible centralised beneficial ownership register.

This is a critical opportunity for Australia to ensure that our AML/CTF regime makes a substantial impact, nationally and globally, in preventing illicit funds that enable transnational, and serious and organised crime.

We hope that this submission will prove to be of benefit to the important work of your committee.

Serena Lillywhite

CEO, Transparency International Australia