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27 May 2011

Committee Secretary
Senate Standing Committees on Legal and Constitutional Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary,

**Inquiry into the three Australian Transaction Reports and Analysis Centre Supervisory Cost Recovery Levy Bills 2011**

We appreciate the opportunity to provide comment to the Senate Committee inquiry in relation to this matter. Citi has very serious concerns regarding the proposed levy calculation methodology as it is not equally applied to all Designated Services which AUSTRAC supervises and monitors. In its current form, the levy will place Australia and its financial institutions at a substantial competitive disadvantage.

Citi globally is a leading financial services company, has approximately 200 million customer accounts and does business in more than 140 countries. Through Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

Citigroup Pty Limited (and its related Designated Business Group members) is regulated by AUSTRAC.

Citi understands from discussions with its regional offices, that no other Anti Money Laundering regulator or government body in the Asia Pacific region imposes a levy similar to the one being proposed for Australia. Neither is there any discussion in the Asia-Pacific region suggesting that a levy will be imposed.

Citi has supported the various industry bodies in their submissions to AUSTRAC during the consultation phase of the Cost Recovery Impact Statement leading up to the drafting of the Bills. We object to the proposed levy calculation methodology for the following reasons:

- The levy calculation methodology currently proposed by the Minister will place Australia and its financial institutions at a competitive disadvantage to other countries and financial institutions in the Asia-Pacific region. The proposed methodology heavily weights the levy disproportionately to those financial institutions in Australia that provide high value cross-border payments and settlement flows;

- Financial institutions that run pan-Asia custody hubs, regional processing centres and/or payments and trade service centres all process significant and high value cross-border payments and settlement flows for legitimate business reasons. The proposed levy will therefore discourage financial institutions from establishing and maintaining these financial services hubs in Australia given the significant cost increase imposed by this levy;
- Established hubs located in Australia, will equally have no incentive to grow or expand their business model given any increase in cross border payment and settlement flows will mean an increase in the levy;
- As noted above, the levy is disproportionately weighted to those financial institutions that provide high value payments. Most of these financial institutions will also be Large Reporters to AUSTRAC. AUSTRAC's Cost Recovery Impact Statement outlines the following fee breakdown:

    i. The proposed component of the levy that is based upon the value of cross-border payments, represents 60% of the total cost recovery;
    ii. The component of the levy based upon the volume of payments is less than 1% of the total cost recovery;
    iii. The large reporting element (that most financial institutions that provide high value payments and settlement flows will also have to pay), is 30.6% of the total cost recovery;
    iv. The base fee that all supervised firms must pay, represents 8% of the total cost recovery.

    AUSTRAC regulates close to 70 Designated Services. The activities by the cross border payment flows, are a small proportion of the Designated Services. The calculation methodology is therefore a disproportionate reflection of the activities that AUSTRAC undertakes in its monitoring and supervisory capacity.

In conclusion, the levy will have unintended consequences in relation to Australia's ability to compete in the Asia Pacific region given the additional significant costs that the levy will impose on Australian financial institutions. We recommend that the composition of the levy be re-assessed to ensure a more equitable distribution reflective of the Designated Services that AUSTRAC monitors and supervises.

Yours sincerely

Stephen H Roberts
**Chief Country Officer and CEO**
**Institutional Clients Group**
**Citigroup Pty Limited**