Australian Government

AUSTRAC

Parliamentary Joint Committee on Law Enforcement

Inquiry into the capability of law enforcement to respond to money laundering and financial crime

AUSTRAC submission

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Contents

Introduction

The Australian Transaction Reports and Analysis Centre (AUSTRAC) welcomes the opportunity to make a submission to the Parliamentary Joint Committee on Law Enforcement's inquiry into the capability of law enforcement to respond to money laundering and financial crime.

Australia remains committed to creating a hostile environment for criminals who abuse the financial system for money laundering, terrorism financing and other serious crime. This is achieved through investigation and prosecution of offenders, confiscation of criminal assets, regulatory reform, capacity building throughout the region, and industry outreach and education.

The broader network of regulatory, law enforcement and national security agencies acknowledges that the persistent threat of money laundering requires a united response. Despite a sustained focus and effort across Australia's public and private sectors, money laundering remains an intractable issue, as it is highly intertwined with all profit-generating crimes.

Notwithstanding the agency's achievements to date, AUSTRAC is hindered in providing the level of support to law enforcement that is expected under global best practice standards – the Financial Action Task Force (FATF) Recommendations – due to gaps in Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime. For example, intelligence gaps arise from certain non-financial businesses and professions being unregulated for AML/CTF purposes. These provide certain higher-risk legal, accountancy, trust and company, and real estate services, as well as dealers in precious metals and stones. Such businesses are not currently required to understand the risks of criminal exploitation they face in providing these higher-risk services and undertake appropriate due diligence. They are also not required to report suspicious matters to AUSTRAC when they form a suspicion of financial crime.

The proposed reforms to the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) are an opportunity to close these gaps. The reforms will also ensure that Australian law enforcement agencies can use the same tools available almost universally to their global counterparts, to protect the Australian community from the harms of financial crime.

This submission focuses on the inquiry's terms of reference as they relate to AUSTRAC's mandate, demonstrating the effectiveness of collaboration and information sharing, and the significance of industry engagement in achieving operational outcomes.

Part 1: Financial intelligence

Financial intelligence has become increasingly vital in securing law enforcement outcomes in the face of new and emerging threats. It is a critical piece of the national security architecture, preserving the integrity of Australia's financial system.

As Australia's financial intelligence unit (FIU), AUSTRAC collects information from more than **17,500** regulated 'reporting entities', to develop targeted financial intelligence. AUSTRAC safeguards, analyses and provides this data to law enforcement and other partner agencies.

AUSTRAC's financial intelligence analysts use that information to identify financial transactions linked to crimes, including money laundering, terrorism financing, organised crime, child exploitation and tax evasion. We produce operational intelligence reports to understand emerging and current threats, and provide tactical intelligence to directly support law enforcement investigations and intelligence activities. We also assess risk across sectors and share this information with government and industry partners, including in national and sectoral risk assessments.

We actively share intelligence with government partners to help their work to detect and disrupt criminal activity. These partners also have access to AUSTRAC's data holdings and can search information directly to support their national security and law enforcement work.

AUSTRAC's dual role

AUSTRAC's regulatory and financial intelligence functions are interconnected and complementary. This helps to build resilience in the financial system and enables us to use financial intelligence and regulation to disrupt money laundering, terrorism financing and other serious crime.

As Australia's AML/CTF regulator, AUSTRAC requires reporting entities to have processes and controls in place to protect their systems from criminal misuse. Reporting entities include businesses such as banks and credit unions, non-bank lenders and stockbrokers, gambling and bullion service providers, remittance providers and digital currency exchange providers.

Reporting entities are also required to report certain financial transactions and suspicious activity. AUSTRAC monitors the quality of these reports and educates industry on associated money laundering/terrorism financing (ML/TF) risks, to ensure they continue to report high-quality information.

In turn, these reports give our financial intelligence arm the information needed to identify potential threats and develop actionable intelligence to support law enforcement, intelligence, national security, human services and revenue agencies, and AUSTRAC's international counterparts.

Law enforcement and intelligence partners use this information to detect, prevent and disrupt money laundering, terrorism financing and other serious crime.

Part 2: Scale and forms of money laundering and financial crime

Money laundering and financial crime

Money laundering is a key enabler of serious and organised crime. It allows criminals to enjoy the profits of crimes such as drug trafficking, tax evasion, theft and fraud. Every day, criminals around the world generate billions of dollars in profits from transnational, serious and organised crime (TSOC). Money laundering is the process used to place, layer and integrate these funds into the legitimate financial system and obscure their origins.

The activities of TSOC groups are not only a direct threat to the community, but also have indirect security, economic and social impacts on Australians. Profits from these illicit acts can also fund other crimes, including terrorism. (Refer to the Australian Criminal Intelligence Commission's – ACIC – submission to this inquiry for details on the associated costs to the Australian community.)

Australia, by virtue of its strong economic prosperity, stability of governments and effective rule of law, is an attractive destination for criminals to launder the proceeds of crime. Australia remains a highly lucrative market for illicit goods and is targeted by transnational criminal networks. Individual wealth remains a target for fraud and cybercrime. The combination of those threats means proceeds of crime will be laundered through Australia's financial system to reach offshore criminal networks. Law enforcement agencies agree that targeting the criminal business model has a significant disruptive impact, reduces harm to the community, and minimises the loss of government revenue.

Shifts in the threat environment are challenging traditional law enforcement approaches. Advances in technology, the digitisation and increased speed of financial services, and pervasive social media have led to increases in cyber attacks and the spread of disinformation from state and non-state actors. Blockchain technology and cryptocurrencies enable the undetectable movement of funds. Easy access to encryption tools and the dark web also allow criminal organisations to obscure their activities.

It is crucial to address critical vulnerabilities across the financial system and raise awareness of criminal methodologies. More work needs to be done in collaboration with industry to lift compliance and strengthen the financial system.

National risk assessments

AUSTRAC recently published Australia's latest national risk assessments (NRAs):

- *Money laundering in Australia national risk assessment* 2024
- *Terrorism financing in Australia national risk assessment* 2024

The NRAs bring together insights from across Australia's law enforcement, intelligence and regulatory agencies, private sector stakeholders and international FIUs, to assess risk relevant to our domestic environment.

The 2024 NRAs found:

- methods including cash, banks, luxury goods, real estate and casinos remain high-risk channels for money laundering
- retail banking, remittance and exchanging cash remain preferred methods for moving funds for terrorism financing
- exploitation of digital currencies is increasing.

The NRAs also identify the high ML/TF risks and vulnerabilities of services provided by real estate professionals, legal practitioners, accountants, trust and company service providers, and dealers in precious metals and stones (known as 'tranche 2' entities). The services provided by these entities are not currently covered by Australia's AML/CTF regime.

Money laundering in Australia national risk assessment 2024

The key theme to emerge from this assessment is *persistence* in:

- exploitation of channels that have historically been used to launder funds (for example, banks, remitters and casinos)
- exploitation of high-value assets like luxury watches, vehicles and real estate
- involvement of professional service providers to help establish complex business structures and associated banking arrangements, to help individuals launder funds and conceal wealth.

Another theme to emerge from this assessment is the **criminal exploitation of legitimate financial channels, assets and services.**

Core features of Australia's domestic economy such as cash, bank accounts, payments technology, business structures and trusts, are also used by money launderers to place, layer and integrate criminal proceeds. Underpinning many money laundering activities in Australia is opacity, anonymity and a lack of transactional visibility. A continued mainstay of money laundering is the use of cash, trusts, identity crime, mule accounts, and third-party transactions that obscure identity, beneficial ownership or financial flows.

Identity verification – a key pillar of AML/CTF controls – is likely to become an increasingly contested space with the emergence of artificial intelligence and deepfakes. This is a key emerging challenge facing Australia and the broader AML/CTF community.

Key money laundering NRA findings

Lawful domestic financial channels remain fundamentally important pathways for money launderers to place, layer and integrate funds domestically and internationally. Australia remains an attractive destination to store and integrate criminal proceeds because of its stable political system, open and free economy, independent legal system, well-developed financial services sector and strong real estate market.

Crimes generating the highest value of illicit proceeds that require laundering are assessed to be drug offences (including cultivation, manufacture and trafficking), tax and revenue crimes, and defrauding government-funded programs. The illicit drug market is a key driver of money laundering in Australia.

Criminals continue to use established channels such as cash, luxury goods, real estate, domestic banks, casinos and remitters to launder funds in Australia.

Criminal use of digital currency, digital currency exchange providers, unregistered remitters and bullion dealers is increasing.

The increased speed of financial transactions in recent years has made it harder for reporting entities to identify and freeze suspicious transfers before funds leave an account. This is further complicated when individuals open and transact through multiple products across multiple financial institutions.

Opaque legal structures can be created in Australia and used by criminals to help conceal their identity and illicit activity. These structures can limit or obscure visibility of the ultimate beneficial owners of corporate entities, assets and financial infrastructure. They create a significant money laundering vulnerability for Australian authorities and industry.

The use of professional service providers, either witting or unwitting, to establish, advise on or operate corporate and financial infrastructure, also reduces visibility of the ultimate beneficial owner and creates money laundering vulnerabilities for Australian authorities and industry. The lack of AML/CTF obligations for some designated non-financial businesses and professions means professional service providers are not subject to the due diligence, transaction reporting and supervision requirements outlined in the AML/CTF Act.

Part 3: Effectiveness of collaboration and information sharing with law enforcement

AUSTRAC's intelligence priorities are derived from law enforcement, national security and legislative focus, while also aiding and complementing regulatory priorities and industry campaigns.

In 2023-24 we issued **367 intelligence products** to domestic law enforcement and national security partners, to support national priorities. In 2022-23 our financial intelligence contributed to raising **$37.2 million** in tax liabilities from **3,004 cases**. Our unique input can be pivotal in determining what is a criminally-funded asset.

During 2023-24, **41 approved partner agencies** (including law enforcement agencies) had direct online access to AUSTRAC's database to view transaction reporting, including suspicious matter reports (SMRs). This gives partners enhanced capability and increased user capacity to use AUSTRAC information 24/7 in near real-time.

This assists law enforcement enquiries and investigations, and provides modern tools for extraction and analysis. In 2023-24, **5,331 external users**, including law enforcement officers, conducted **10,343,108 searches** of AUSTRAC's systems. AUSTRAC provided a variety of intelligence products to law enforcement (and other) partners, including:

- financial crime guides (including a threat update for the superannuation sector and digital currency exchange providers guidance)
- operational intelligence reports
- tactical intelligence reports
- information reports
- intelligence briefs
- indicators reports
- methodologies.

Domestic partnerships

AUSTRAC works closely with law enforcement agencies, to protect the financial system from criminal abuse. This includes identifying potential risks across the financial sector and ensuring a coordinated and consistent approach to managing industry risk and non-compliance. AUSTRAC provides unique financial and analytical capabilities, and client-focused intelligence products, to our partners. We also contribute to broader national intelligence efforts as one of the 10 members of the National Intelligence Community.

AUSTRAC has **51 memoranda of understanding** (MOUs) to facilitate the exchange of AUSTRAC information (including financial intelligence) with law enforcement agencies and domestic regulatory, policy and intelligence agencies. These include regulatory partners the Australian Securities and Investments Commission, Australian Prudential Regulation Authority and Australian Competition and Consumer Commission, and all state and territory police agencies.

AUSTRAC deepens understanding of drivers shaping Australia's financial crime environment, by working with partner agencies and across the open-source environment, to monitor and report on shifts in the money laundering, terrorism financing and proliferation financing environments.

We provide critical financial intelligence support to state law enforcement agencies via secondment arrangements, co-location of staff and contribution to operations. The teams are members of multi-agency groups nationally, which focus on disrupting priority targets in various jurisdictions.

We support law enforcement agencies by providing intelligence training to further enhance their understanding of financial data, to detect ML/TF risks.

AUSTRAC staff are embedded in several Commonwealth, state and territory partner agencies, to support law enforcement and national security operational efforts. AUSTRAC is an active member of **18 multi-agency, multi-jurisdictional task forces and operations**, providing specialist financial intelligence support.

Taskforce Avarus

Led by the Australian Federal Police (AFP), this taskforce was launched in March 2023 to target organised crime syndicates involved in large-scale money laundering through Australia's financial system and property market. AUSTRAC is a leading member and offers data analytics and timely financial intelligence, regulatory insights, Fintel Alliance and seconded staff capabilities.

Our support to Taskforce Avarus helped shape the direction of numerous investigations, through analysis of criminally complicit remittance service providers, and identified new methodologies used by industry players to avoid their reporting obligations.

Serious Financial Crime Taskforce

AUSTRAC contributes to the Australian Taxation Office's (ATO) recovery of revenue and liabilities by:

- contributing to the outcomes achieved by the ATO-led Serious Financial Crime Taskforce (SFCT), through the provision of financial intelligence
- providing high-volume transaction report data, enabling the ATO to identify undeclared foreign-source income and serious non-compliance.

During the 2023–24 financial year, AUSTRAC assisted the SFCT in addressing the most serious and complex forms of financial crime. We provided 50 intelligence products, focused on professional enablers, technology-enabled crime, and value flows between connected criminal syndicates.

We continue to engage in targeted development and generation of new SFCT operations, particularly offshore tax evasion in the Pacific. Our referrals to the SFCT also identified individuals linked to extensive labour hire syndicates.

Criminal Assets Confiscation Taskforce

The AFP-led Criminal Assets Confiscation Taskforce (CACT) brings together the resources and expertise of the AFP, Australian Border Force (ABF), ATO, ACIC and AUSTRAC. Together these agencies trace, pursue the restraint of, and ultimately confiscate, criminal assets.

In 2022-23 AUSTRAC's financial intelligence contributed to the restraint by the CACT of more than **$352 million** in gross assets value.

Case study – $15.6 million in assets restrained

The investigation commenced as a result of intelligence provided by AUSTRAC relating to 2 Russian nationals. The AFP-led CACT restrained waterfront properties, a high-rise unit, cash, cryptocurrency, and funds held in bank accounts, following the money laundering investigation.

Police allege the Russian nationals laundered illicit cash by visiting various financial institution branches and ATMs in New South Wales, Queensland, Victoria and South Australia, conducting hundreds of cash deposits during 2022. Police also allege each of the cash deposits was kept under $10,000 in an effort to avoid detection by authorities.

In December 2023 search warrants were executed at a Hope Island home and a solicitor's office in Surfers Paradise. In July 2024 the CACT applied to restrain the assets, worth an estimated combined value of $15.6 million, under the *Proceeds of Crime Act 2002*. The assets include 7 Queensland properties worth an estimated $12.96 million, cryptocurrency worth an estimated $514,000, cash worth $1.95 million, and approximately $118,000 held in bank accounts.

It will be alleged that funds were used to purchase, or rapidly repay, mortgages for multiple Queensland properties including: waterfront properties in Hope Island, Broadbeach Waters and Runaway Bay; houses in Labrador, Alexandra Hills and Mount Gravatt; and a high-rise unit in a Milton complex.

Operation Griffin

In 2023-24 AUSTRAC's Child Sexual Exploitation Response Team (CSERT) disseminated more than 350 intelligence products to law enforcement partners as part of Operation Griffin, initiating and supporting investigations.

Case study – Queensland man sentenced to 14 years for purchasing child exploitation material

Financial analysis conducted by the CSERT identified child sexual exploitation indicators in the financial activity of a Hamilton Island man.

Working with the Queensland Police Service, AFP-led Australian Centre to Counter Child Exploitation (ACCCE) and Philippines-based AFP officers, the CSERT provided extensive briefings and financial analysis identifying victims, facilitators and transactions made by the offender. The CSERT identified more than 826 payments totalling nearly $50,000 over a 3-year period, sent by the man to the Philippines.

Police raided the Hamilton Island man's home and located evidence of child sexual exploitation material on his laptop and phone. The court heard that he would contact women on social media and offer to pay for, and record, livestreaming of them sexually abusing their own children.

In September 2023 the offender was jailed for 14 years after he pleaded guilty to multiple child abuse offences, including paying for a child to engage in sexual activity with another person outside Australia.

In addition to analysing the man's activity, the CSERT analysed and identified the facilitators he was purchasing child sexual exploitation material from in the Philippines. The CSERT provided advice to the ACCCE and Queensland Police Service on additional Australian entities purchasing child sexual exploitation material from these entities – identifying a child sexual exploitation network.

Illicit Tobacco Taskforce

AUSTRAC continues to provide specialist capabilities to the ABF-led Illicit Tobacco Taskforce (ITTF) and its partners.

During the financial year 2023-24, AUSTRAC provided support to ongoing operations and investigations. This included: the provision of time-critical ad hoc analysis; comprehensive intelligence on the complex financial patterns of priority illicit tobacco networks; and the exploration of new and emerging threats. Our intelligence contributed to priority illicit tobacco network targeting, warrant activity planning and detection of illicit tobacco. We provided 18 intelligence products to the ITTF.

Working with ITTF partners, AUSTRAC identified and pursued relevant lines of effort, applying our financial intelligence capabilities to analyse and understand complex networks, improve investigative outcomes and explore disruption opportunities.

We continue to explore opportunities to enhance the capabilities of the ITTF to detect, disrupt and deter criminals seeking to avoid Australia's excise systems via the illicit tobacco trade.

International partnerships and regional capacity building

AUSTRAC's engagement with global partners, particularly those in the Asia-Pacific region and Five Eyes countries, allows the delivery of strategic and operational outcomes for Australia. AUSTRAC works with South-East Asia and Pacific Island partners, to provide training and resources to improve their AML/CTF capabilities and build the capacity of FIU partners. This enhances Australia's own capacity to respond to the global threat of money laundering.

Law enforcement partners benefit from our network of deployed officers, and **MOUs with over 100 international counterpart FIUs** and supervisory agencies. AUSTRAC has an international network of liaison officers posted to Washington DC, London, Kuala Lumpur, Beijing and Suva. Our offshore network: supports Australian partner agencies operating in these countries; collaborates with overseas counterparts; and supports AUSTRAC's domestic work with insights and information.

AUSTRAC is co-founder and co-chair of 2 regional FIU forums focused on enhancing operational collaboration on mutual AML/CTF threats:

- the **Financial Intelligence Consultative Group**, covering FIUs from ASEAN member countries and New Zealand
- **Pacific Financial Intelligence Community**, made up of all South Pacific Island FIUs.

AUSTRAC supports capacity building for Indo-Pacific partners through:

- the regional **Financial Intelligence Analyst Course**, delivered in 4 ASEAN nations and the Pacific (to date), equipping participants to conduct financial intelligence analysis
- **multilateral intelligence programs** to collaborate on joint financial intelligence analysis on priority operational topics – these are conducted as the need arises, using agency and/or program funding
- the regional **AUSTRAC Pacific Islands Partnership program** that delivers capacity building to financial intelligence analysts and AML regulators across the Pacific

- the DFAT-funded **Mekong-Australia Program on transnational crime** that delivers capacity building to Mekong FIUs, to uplift analytical tradecraft skills
- the DFAT-funded **AML/CTF Responses in the Philippines Program** that delivers capacity building to Philippines FIU staff and law enforcement, on CTF
- deployment of new analytical systems for Pacific FIUs.

AUSTRAC is also an active participant in the work of FATF and the Asia/Pacific Group on Money Laundering, both of which provide the policy framework for jurisdictions to take effective action against ML/TF. (Refer to the Attorney-General's Department's submission to this inquiry for further detail on these international bodies.)

Part 4: Role and response of businesses and private sector organisations

Australian businesses are at the frontline of interactions with criminals who seek to exploit their services. The AML/CTF regime partners legitimate businesses with government, to fight ML/TF and other serious crimes.

Regulation under the AML/CTF regime has benefits for industry. The AML/CTF regime establishes a comprehensive mechanism for businesses to identify, assess, manage and mitigate ML/TF risks in a way that is scalable to the individual business. Regulated entities can use the guidance, education and risk insights provided by AUSTRAC to: prevent their business facilitating criminals; enhance market access; protect their reputation; and increase customer confidence. Regulation also provides several legal protections for sharing information, or actions taken to mitigate risk in line with the AML/CTF Act.

The AML/CTF regime also allows for reporting certain transactions. This reporting forms a core part of the financial intelligence AUSTRAC produces. The AML/CTF regime requires reporting:

- suspicious matters
- threshold transactions (physical cash transactions valued at AUD10,000 or more)
- international funds transfer instructions (instructions to move funds or value into and out of Australia)
- cross-border movements of monetary instruments (cash and bearer negotiable instruments), from individual travellers and businesses, valued at AUD10,000 or more.

The quality of reporting from industry is enhanced through the fundamental education and guidance pillar of AUSTRAC's supervisory approach. By sharing risk assessments and sector-specific guidance, businesses can be armed with the insights needed to protect themselves from criminal abuse.

In 2023-24 reporting entities submitted **381,758 SMRs** to AUSTRAC. These reports are available to law enforcement partners within 24 hours after receipt. In addition, we forward potentially high-risk SMRs to law enforcement and government agencies upon identification of priority financial crime threats.

Fintel Alliance

In 2017 AUSTRAC established a public-private partnership, Fintel Alliance, to develop shared intelligence and deliver innovative solutions to detect, disrupt and prevent ML/TF. Fintel Alliance brings together **31 member organisations** from industry, non-government organisations, law enforcement and national security agencies, working side-by-side to:

- develop and share financial intelligence, risk models and risk insights
- share close to real-time information in a secure and targeted way
- provide a centre of excellence for financial intelligence, by shaping standards and developing highly-skilled financial intelligence analysts.

Each partner provides a unique perspective on the financial sector, including experts from financial institutions, state and Commonwealth law enforcement and intelligence agencies.

Fintel Alliance's achievements for 2023-24 include:

- launching an information-sharing platform to enable secure and classified information sharing in real-time
- undertaking a proof of concept to enable data exchange across a shared platform, to generate threat insights and target development
- contributing to the arrests of offenders for drug trafficking and money laundering.

Fintel Alliance's operational efforts focus on the following areas of relevance to money laundering:

- developing a 'Collaborative Analytics Hub' to enhance government and private sector detection capabilities
- focusing on persistent financial crime threats, such as money laundering and illicit drugs
- detecting and preventing the exploitation by criminal groups of emerging technologies and financial channels
- identifying criminal activity and emerging risks in high-risk sectors and jurisdictions
- protecting the community
- countering national security threats.

Helping business detect and respond to financial crime and ML threats

Fintel Alliance produces threat alerts developed in response to contemporary or emerging financial crime threats. These are identified by government agencies and industry partners working collaboratively within Fintel Alliance. Threat alerts:

- provide updates on new and emerging threats and risks
- support government agencies to understand how criminals target businesses and the community
- assist the financial sector to identify and report suspicious activity, and enhance internal controls.

Fintel Alliance has published **11 financial crime guides** to assist regulated businesses. This is an example of the collective efforts of AUSTRAC and Fintel Alliance partners, including government agencies and industry. The guides focus on:

- National Disability Insurance Scheme fraud
- preventing misuse and criminal communication through payment text fields
- preventing the exploitation of emergency and disaster support payments
- combating the sexual exploitation of children for financial gain
- detecting and reporting cuckoo smurfing
- illegal wildlife trafficking
- detecting and stopping forced sexual servitude in Australia
- preventing trade-based money laundering in Australia
- preventing the criminal abuse of digital currencies
- detecting and stopping ransomware payments
- international student money mules.

Fintel Alliance Casino Working Group

AUSTRAC established a Fintel Alliance Casino Working Group to identify and respond to money laundering risks in casinos.

The group brings together financial crime leads from law enforcement, government, AUSTRAC, and representatives from all Australian casinos, to build a strong community of best practice.

It provides a forum for members to share information and views on new and emerging money laundering trends in the casino sector, and explore measures to strengthen controls across the industry.

Virtual Assets Working Group

The Virtual Assets Working Group consists of 5 state policing agencies, the ACIC, AFP and 6 digital currency exchange providers. The group has strengthened relationships with each partner, to enable collaboration. This is to better understand virtual assets risk, and detect, disrupt and prevent financial crime through virtual assets.

The group has led to capability and tradecraft uplift for government, law enforcement and reporting entities, relating to financial crime through virtual assets and digital currency exchange providers.

Fintel Alliance collaboration outcomes against money laundering

Case study: 7 syndicate members charged for allegedly laundering almost $229 million

Through closely working with private industry partners, Fintel Alliance demonstrated the effectiveness of the public-private partnership against the complex threat of transnational organised crime in Australia.

An alleged money laundering syndicate was operating a prominent, multi-billion-dollar registered remittance business in Australia. Seven members of the syndicate were charged under the most complex AFP-led money laundering investigation in the nation's history. Under Operation Avarus-Nightwolf, the money laundering syndicate is accused of laundering at least $229 million of proceeds of crime in the past 3 years (since 2020-21), with the AFP-led CACT obtaining restraining orders over a significant value of assets in connection with the alleged offending.

In addition to dedicated AUSTRAC analytic effort to the AFP-led Money Laundering Taskforce, collaborative financial analysis was provided by Fintel Alliance and private industry partners. This resulted in the syndicate's financial structures being fully identified and comprehensively dismantled. This highlights the important role played in combating complex transnational organised crime.

Following charges laid by the AFP, and continuing our strong support of the operation, AUSTRAC exercised our regulatory powers to suspend the registrations of 6 remittance and one digital currency exchange businesses associated with the charged individuals. This prevents the ability for these businesses to continue operating.

Case study: Environmental crime and money laundering

As part of its commitment to combating environmental crime, Fintel Alliance harnessed its ability to combine valuable financial intelligence, in response to a request for assistance from a government partner, identifying numerous anomalies in financial activity.

In addition to the partner using this information to progress its investigation, Fintel Alliance determined the intelligence to be of value to several member agencies, and proactively shared with the ABF. Identifying trade-based money laundering concerns prompted a border 'stop and search' at Melbourne's International Airport, where $590,000 worth of luxury goods were found. As a direct result, the traveller in possession of the luxury goods was ordered to pay $94,000 in GST, customs duties and administrative penalties to have the goods released.

Case study: Money mules exploiting digital currency exchange providers

The Fintel Alliance Virtual Assets working group collaborated to understand an observed increase in money mules targeting and exploiting digital currency exchange providers to move illicit funds. The working group developed a threat alert to highlight this risk and map an identified emerging methodology, and shared associated financial crime indicators with Fintel Alliance members.

In support of Fintel Alliance's strategic priority to detect and prevent exploitation of emerging technologies and financial channels by criminal groups, this alert was shared with digital currency exchange providers registered in Australia. Sharing the threat alert raises awareness and encourages the hardening of controls to prevent businesses from becoming targets of criminal abuse.

Industry education and outreach

AUSTRAC has a dedicated Industry Education and Outreach team, which supports reporting entities across all regulated industries to understand their AML/CTF obligations and financial crime risks, to improve compliance and the quality of reports submitted to AUSTRAC.

The team engages with industry through presentations to groups of reporting entities as part of industry workshops, seminars and conferences on a variety of AML/CTF topics. The role of industry associations is pivotal, not only for the coordination of engagement with entities, but also to effectively prioritise key issues and deliver targeted outcomes.

National risk assessment education campaign

An example of this engagement is the recent education campaign on the 2024 NRAs, and the 2022 NRA on proliferation financing in Australia.

During July and August 2024, we delivered 10 industry-specific webinars to over 980 attendees, on the key findings of the NRAs for specific industries. Feedback mechanisms continue to track the understanding and capability uplift of reporting entities with respect to ML/TF risk.

Sectoral education campaigns

AUSTRAC's Industry Education and Outreach team conducts targeted sectoral education campaigns, engaging directly with reporting entities to:

- promote AUSTRAC's guidance products
- raise awareness of ML/TF risks
- broaden industry knowledge of and compliance with AML/CTF obligations.

Targeted education campaigns have been undertaken in recent years for pubs and clubs, remittance providers and digital currency exchange providers. These involve face-to-face or virtual education sessions, covering AML/CTF obligations and AUSTRAC's guidance products for the relevant sector.

Regtech engagement

In addition to engaging directly with reporting entities, the Industry Education and Outreach team also engages with the Australian regtech industry. This is to assist reporting entities to develop new and more effective technology solutions for AML/CTF compliance.

AUSTRAC supports regtechs by providing general guidance on AML/CTF regulation, via the 'AUSTRAC RegTech Engagement' program. We publish focused guidance material and collaborate with regtech industry associations.

Another AUSTRAC initiative is holding regtech symposiums. These provide ongoing high-level dialogue and guidance to the industry, to assist the development of more effective technology solutions for AML/CTF compliance.

Supervision and enforcement engagement

AUSTRAC's supervision and enforcement activities are undertaken to gain confidence that reporting entities are meeting their obligations and managing ML/TF risks effectively, and where they are not, to compel them to do so or take enforcement action as appropriate.

Well-targeted and proportionate enforcement action benefits reporting entities and the wider community by contributing to the capacity of the financial system to detect and repel ML/TF activity. Our enforcement activities are intended to achieve current and future compliance, deter non-compliance and disrupt ML/TF activity through reporting entities.

Failing to comply with the AML/CTF Act, adopt appropriate risk-based controls, or meet reporting obligations to AUSTRAC, can have serious consequences for reporting entities. Since 2020, AUSTRAC's enforcement actions have resulted in the Federal Court of Australia ordering businesses to pay more than $1.8 billion in penalties.

Part 5: Proposed reform of the AML/CTF regime

Since the passage of the AML/CTF Act in 2006, Australia's AML/CTF regime has proven to be effective however, significant gaps remain when measured against the global best practice represented in the FATF Standards. Since 2006 the ways in which regulated businesses operate have also evolved. There are opportunities to streamline the AML/CTF Act to remove unnecessary regulatory burden, while reinforcing the capacity of AML/CTF regulation to be truly responsive to risk.

Ensuring Australia is compliant with the FATF Standards is a fundamental objective of the proposed reforms. Australia's AML/CTF regime will next be assessed by FATF over 2026-27. A poor assessment risks Australia being 'grey listed' by FATF, which could have serious consequences for Australia. These include economic and gross domestic product impacts, and increased threats, risks and burdens for law enforcement.

Certain services are identified in the FATF Standards as posing a high risk due to their vulnerability to misuse for ML/TF. Some of these services, provided by non-financial businesses and professions, remain unregulated in Australia for AML/CTF purposes.

The proposed reforms to the AML/CTF regime aim to:

- address the vulnerabilities in sectors providing certain high-risk services
- modernise digital currency and payments technology-related regulation
- simplify, clarify and modernise the AML/CTF regime for all regulated entities.

Addressing vulnerabilities in sectors providing certain high-risk services

The proposed reforms would expand Australia's AML/CTF regime to certain services provided by tranche 2 entities – lawyers, accountants, trust and company service providers, real estate professionals, and dealers in precious stones and metals. Services provided by these sectors and/or the products they deal with are recognised globally – and in Australia's NRA – as high risk for money laundering exploitation, but are not currently captured in the AML/CTF regime.

Under the reform proposal, tranche 2 entities would:

- enrol with AUSTRAC – which will also give visibility of tranche 2 sectors to AUSTRAC
- develop and maintain an AML/CTF program for their business, to equip them with an understanding of the risks of criminal exploitation they face and set out measures to mitigate these risks
- report to AUSTRAC threshold transactions involving $10,000 or more in physical currency, and suspicious matters
  - this will also give AUSTRAC and law enforcement visibility of high-value cash transaction activity and suspicious matters arising from higher-risk services provided by tranche 2 sectors, to follow money trails

- conduct customer due diligence (CDD) and ongoing CDD, to:
    - be satisfied their customers are who they claim to be
    - understand the nature and purpose of the business relationship with customers
    - be able to rate the risk associated with providing services to customers
    - re-verify when there are changes to customer activity or risk profile
    - observe how customers are using their services over time, and monitor for changes that may impact their risk profile or behaviour that may be unusual or suspicious
- make and keep records about the due diligence measures they undertake, the services they provide and how they are meeting their AML/CTF obligations
    - this will also enable AUSTRAC and other authorities to investigate criminal misuse of services, based on records kept by tranche 2 entities.

Modernising digital currency and payments technology-related regulation

The emergence of new payment services and innovative technologies has led to challenges in understanding how current AML/CTF obligations apply. Without reform, the AML/CTF regime will not reflect modern payment practices. This risks payment services becoming vulnerable to exploitation by criminals and will make it harder for law enforcement to follow the money trail.

The reforms will:

- expand the list of digital currency or virtual asset services subject to AML/CTF regulation, to align the AML/CTF regime with the FATF Standards and increase visibility of digital currency activities in Australia and with other jurisdictions
- introduce new streamlined value transfer services, to remove outdated assumptions about payment/transfer services that have led to significant regulatory complexity, and recognise the changing payments environment and increasing use of digital currency
- update requirements for payer and payee details to accompany value transfers (also referred as the **travel rule**), to improve payment transparency for transfers of money, property and digital currencies
- streamline and simplify international funds transfer reporting, and extend the obligation to cover digital currency transfers to close an emerging regulatory and intelligence gap.

Simplifying and clarifying the regime

The current AML/CTF regime can be complex and not well understood, leading to inadequate ML/TF prevention practices by regulated businesses and lower-quality financial intelligence.

The reforms are an opportunity to:

- improve the effectiveness of the regime for businesses, partner agencies and AUSTRAC
- ease regulatory burden by simplifying and clarifying the regime to make it easier for businesses to meet their obligations
- modernise the regime to reflect changing business practices and technologies.

The proposed simplification and clarification reforms relate to: AML/CTF programs; CDD; the 'tipping-off' offence; and administrative changes to legislation.

AML/CTF programs

The AML/CTF program is a key document for a business to:

- detail the risk-based policies, procedures, systems and controls it implements and maintains in relation to the designated service(s) it provides to customers
- set how the business and its employees comply with AML/CTF obligations.

The changes to AML/CTF program requirements will:

- set out a clear requirement for businesses to conduct and document an ML/TF/proliferation financing risk assessment, and implement appropriate risk mitigation measures, as part of their AML/CTF program – this is to improve reporting entities' overall awareness and understanding of ML/TF/proliferation financing risk and financial crime
- clarify the roles and responsibilities of a reporting entity's board or equivalent senior management and AML/CTF Compliance Officer
- clarify the obligations to be applied to foreign branches and subsidiaries.

The AML/CTF program is a 'living document', which needs to react to changing risks and threats identified by the business's own risk assessment or communicated by AUSTRAC (for example, through NRAs, financial crime guides, threat alerts and feedback).

Customer due diligence

Changes to CDD obligations will require businesses to improve understanding of potential risks with each customer, and applying ongoing CDD measures proportionate to customer risk.

The reforms will also change CDD exemptions:

- permitting eligible law enforcement agencies to issue 'keep open notices' directly to reporting entities, and permit entities not to perform CDD measures when they receive a notice – this will be an efficiency gain for reporting entities, law enforcement and AUSTRAC
- lowering the threshold for gambling service providers, for when CDD needs to be carried out, from $10,000 to $5,000 – this is to minimise regulatory differences between the Commonwealth, states and territories and align Australia's AML/CTF regulation of gambling services with the FATF Standards.

Tipping-off offence

The current tipping-off offence will be updated to focus on preventing the disclosure of suspicious matter report information, or section 49 notice related information, where it is likely to prejudice an investigation. A section 49 notice can be used by an authorised agency to request further information relating to a transaction or suspicious matter report given to AUSTRAC.

This move to a 'harm prevention' model will be a significant shift away from the existing, highly prescriptive, tipping-off offence that has in some cases impeded appropriate risk mitigation by reporting entities.

Administrative changes to legislation

The *Financial Transaction Reports Act 1988* (FTR Act) would be repealed. Certain obligations for solicitors would now be captured under the AML/CTF Act.

Other remaining service providers subject to FTR Act regulation would be deregulated, where not required to be regulated under the FATF Standards, providing regulatory savings.

Part 6: AUSTRAC's capabilities and opportunities for improvement

Reporting

Based on the FATF Standards and NRA findings, there are known gaps and areas where further augmentation would improve the capability of law enforcement to respond to money laundering and financial crimes. For example, Australia:

- is one of the few remaining countries that does not impose AML/CTF regulation on tranche 2 entities, resulting in a gap in law enforcement visibility of threshold transactions and suspicious matters for those sectors
- has regulated fiat/digital currency exchange, but is yet to regulate a further 4 virtual asset service activities as required by the FATF Standards, being:
  - exchanges between one or more digital currencies
  - transfers of digital currency and additionally requiring reports of international transfers
  - safekeeping and administration of digital currency
  - participation in and provision of financial services related to an issuer's offer and/or sale of digital currency.

Data and technology

Critical to delivering AUSTRAC's regulatory and intelligence functions is our ability to manage, maximise and protect the value of the financial transaction reports, enrolment, registration and other compliance information provided by reporting entities.

Our financial transaction report data holdings grow annually by hundreds of millions of records, increasing in complexity each year. Currently, AUSTRAC is the custodian of approximately 2 billion financial transaction report records. These are used by the FIU to generate financial intelligence products, and made directly accessible online to authorised partner agencies.

As previously noted, over 5,000 external users (including law enforcement officers) have access to AUSTRAC's data, running over **10 million** searches of our systems.

To achieve regulatory outcomes, we use data analysis and technology solutions to:

- minimise the regulatory burden on reporting entities
- increase our understanding of compliance and regulatory risk across the financial sector
- apply monitoring to identify and respond to non-compliance.

Under the '**FIU of the Future**' strategy, we have invested in modern intelligence systems and advanced analytics. This is to maximise analytical tradecraft techniques and provide accurate, actionable financial intelligence and insights to partners in near real-time. Through a suite of financial profiles, we perform macro-level monitoring of funds flows, to detect activity relating to

entities of interest, or transaction patterns that may indicate serious financial crime or terrorism financing.

Continued strategic investment in our data and analytical capability is needed, to advance our intelligence and regulatory efforts against the ever-changing risk environment, and best support law enforcement outcomes with actionable financial intelligence.

Supervision and preventative measures

The AML/CTF Act recognises reporting entities are the first line of defence in protecting the financial system. The legislative framework sets out preventative measures to:

- instil a risk-based approach, placing the onus on reporting entities to identify, mitigate and manage their ML/TF risk
- 'know your customer' by carrying out CDD and ongoing CDD, and enhanced due diligence as required
- monitor transactions
- report certain transactions and suspicious matters to AUSTRAC.

AUSTRAC works with reporting entities to ensure they are knowledgeable, vigilant, and capable of preventing, detecting and responding to threats of criminal abuse and exploitation. We promote compliance by providing education and guidance, and developing and sharing information about ML/TF risks.

We also monitor and assess reporting entities against their legal obligations and, where appropriate, apply a forceful and credible deterrent to non-compliance by undertaking enforcement action.

Compliance activity for 2022-23 included:

- 140 self-disclosures of supervisory matters from reporting entities
- 21 reviewable registration decisions consisting of:
  - o 18 refusals of registration
  - o 2 suspensions of registrations
  - o 1 registration with conditions imposed
- 1,278 proactive supervisory matters identified (including compliance assessments, campaigns, compliance triage matters assessed and reviewable decisions).

During 2023-24 AUSTRAC:

- received over 50 self-disclosures from reporting entities declaring they did not, or will not, meet their obligations
- made 22 reviewable registration decisions (remittance service providers and digital currency exchange providers), consisting of:
  - o 6 refusals of registration
  - o 14 suspensions of registration
  - o 2 cancellations of registration
- proactively identified over 400 supervisory matters for further assessment (including compliance assessments, campaigns, compliance triage matters assessed, and reviewable decisions).

In 2024 we announced our regulatory priorities for the year ahead, detailing how we plan to bolster the financial system's resilience to ML/TF and other serious crime. The priorities include an ongoing focus upon businesses understanding, mitigating and managing the ML/TF risks they face, particularly across the banking, gambling and remittance sectors (which face higher risks).

Additional sectors will be under scrutiny to uplift AML/CTF capability and ensure legislative compliance. The sectors are: digital currency exchange providers; payment platforms; bullion; and non-bank lenders and financiers.

Our regulatory priorities identify areas in which businesses may be scrutinised. This includes board and senior management oversight around culture and risk management practises, effective transaction monitoring, and managing outsourcing arrangements.

While AUSTRAC will focus our regulatory activities on these priority areas, we retain the capacity to investigate other areas that are important for complying with AML/CTF obligations.

Where we identify emerging issues or serious non-compliance, we will promptly intervene to address such matters. This may result in increased engagement, assessment, notifications and in some cases, AUSTRAC enforcement action.

Our formal enforcement action in 2023-24 included:

- $517 million in Federal Court-ordered penalties, arising from civil penalty proceedings relating to reporting entities' obligations to maintain effective AML/CTF programs and customer due diligence
- monitoring and assessment of 7 enforceable undertakings accepted by the AUSTRAC CEO (2 have concluded and resulted in extensive remediation and uplift, and 5 have ongoing remedial action plans currently being monitored by AUSTRAC)
- 8 infringement notices focusing on ensuring entities meet their reporting obligations to AUSTRAC, totalling $105,600 in penalties.