AUSTRAC IFTI Proof of Concept Workshop 1

Date: Monday 25 June 2018

Time: 8:45am (for 9:00am prompt start) – 5:45pm

Location: King & Wood Mallesons, Sydney Offices: Level 61, One Farrer Place, Sydney 2000, Australia

1   Confidentiality

The workshop is being conducted in accordance with "Chatham House Rules". Accordingly, under these arrangements, workshop participants are free to use the information received, but in so doing, neither the identity nor the affiliation of the speaker(s) or reporting entity, nor that of any other participant, may be revealed. Participants should provide open and honest feedback.

The workshop is **NOT** a compliance exercise. The intention of the exercise is not collecting regulatory intelligence for the purpose of compliance activity.

The Proof of Concept, which falls under the Fintel Alliance Innovation Hub, is a development project that contemplates the future of transaction reporting to AUSTRAC and whether regulatory efficiencies can be achieved to benefit reporting entities. The workshop is also consistent with the recommendations arising from the report of the statutory review to simplify and streamline transaction reporting.

The Fintel Alliance Innovation Hub is a safe place for AUSTRAC and its partners to share ideas and to work collaboratively on joint solutions.

2   Purpose of this document

2.1   Purpose of the workshop

The workshop, which will be facilitated by King & Wood Mallesons ("**KWM**"), is intended to bring together industry participants (namely Australia & New Zealand Banking Corporation ("**ANZ**"), Commonwealth Bank of Australia ("**CBA**"), Macquarie Bank Limited ("**Macquarie**"), National Australia Bank Limited ("**NAB**"), TransferWise Ltd ("**TransferWise**") and Westpac Banking Corporation ("**WBC**")) with AUSTRAC to discuss some key themes and issues surrounding the international funds transfer instruction ("**IFTI**") reporting process. This will inform work AUSTRAC is doing with the IFTI Proof of Concept ("**PoC**") (as discussed further below) and will help inform the Department of Home Affairs in relation to simplifying the IFTI regime in the future.

2.2   Background

AUSTRAC and KWM has recently met with each of the workshop participants to explain the Proof of Concept project.

In late 2017, AUSTRAC engaged the services of KWM to undertake a Proof of Concept to develop a Smart Contract focusing on transaction reporting, in particular, IFTIs.

While the AML/CTF Act is technology-neutral, the objective of the project is to consider whether it is feasible to codify the reporting obligations in order to deliver regulatory benefits and efficiencies for reporting entities and AUSTRAC.

The statutory review of the AML/CTF Act, Regulations and Rules also recommended that consideration be given simplifying and streamlining

transaction reporting. The Proof of Concept project provides an opportunity to consider how the IFTI reporting obligations may be simplified and streamlined while maximising the intelligence yield.

As part of the project, KWM has completed detailed decision-trees based on the detailed IFTI reporting obligations as outlined in the AML/TF Act and Rules. The decision-trees were disseminated under separate cover to participants prior to the workshop.

All participants agreed that there was merit in coming together in a workshop in order to work through the decision trees to consider whether it is feasible to automate the reporting obligations by -

- determining whether there is scope to achieve a shared interpretation of the AML/CTF Act and Rules, especially where a Yes/No response is currently not applicable and require clarification from AUSTRAC or determine where there is scope for a consensus in the interpretation of the AML/CTF legal obligations

- identifying those provisions of the AML/CTF Rules for IFTI reporting that may require refinement or revision in order to provide reporting entities with greater clarity or certainty

- discussion and consideration of the feasibility and approach to simplify and streamline the IFTI reporting obligations commensurate with the recommendations at Chapter 6 of the report of the statutory review of the AML/CTF Act.

2.3 Sessions

Each session set out below has an objective along with an overarching goal designed to help facilitate the conversation, along with discussion pointers. If participants would like to provide any feedback on or responses to these discussion points, or suggestions for additional discussion points, we are happy to set up a call to discuss with KWM and AUSTRAC ahead of the workshop, or do feel free to send through any comments by email. These can then be discussed in the workshop, on a no-names basis, if required.

Participants should feel free to invite any members of their organisation which they feel would be useful in contributing to one or more of the sessions set out below. We have highlighted who the potential attendees could be as a guide for each session only.

3 Agenda

3.1 Introduction from AUSTRAC

Objective: to provide an overview as to what AUSTRAC is looking to solve with the PoC and this workshop.

Time: 9:00am – 9:30am (30 mins)

Potential attendees (as a guide only):

Compliance, legal, technical specialists.

3.2 **Session 1: Understanding the interpretation of the current legislation by participants**

Objective: To better understand how participants currently interpret the legislation around IFTIs.

Goal: To develop a list of key elements of the current legislation which are open to different interpretation which could be clarified by AUSTRAC, or for which industry consensus on approach could be reached.

Discussion pointers:

What determinations do participants have to make to decide whether there is a reportable IFTI and are there any challenges/nuances in determining this? For example, how do participants approach the requirements of 'control' in an incoming IFTI-E?

What requirements of reportable details do participants find challenging in populating?

What kind of controls do participants have to enable staff to check whether something is reportable?

How have participants determined what 'if known' and/or 'as appears in the instruction' means in the legislation? How has this been interpreted for institutions with many subsidiaries? Is this different for incoming/outbound IFTIs?

Time: 9:30am – 11:00am (1 ½ hrs incl. morning tea)

Potential attendees (as a guide only):

Compliance, legal.

3.3 **Session 2: Understanding how participants automate the decisions and processes needed to comply with the current legislation**

Objective: To better understand how participants have used technology to automate the reporting obligations, including the decision that a report is required.

Goal: To develop a set of common parameters to automation by participants which AUSTRAC can apply in developing the PoC and guidance for other reporting entities.

Discussion pointers:

Where does determining whether an IFTI report is required sit in the payment process? Who does this analysis? How is this different for incoming/outbound IFTIs?

What systems integrations and automation exist in connection with:

(a)   whether an IFTI report is required?

(b)   inputting details into the relevant report?

Are these two items (whether an IFTI report is required, and the population of the IFTI report) done as a single process, or as two distinct processes? Is this different for incoming/outbound IFTIs? How is this determined?

How do participants decide what should be automated and what should not be? How do participants automate the process?

What problems do participants experience regarding extraction of information from within their various systems?

What problems do participants experience regarding extraction of information from different messaging systems (particularly relevant for inbound IFTIs)?

Time: 11:30am – 1:30pm (2hrs, incl. working lunch)

Potential attendees (as a guide only):

Compliance, legal, technical specialists.

THEME 2: ANALYSING

3.4   Session 3: Discussing the IFTI PoC flowcharts in more detail

Objective: To discuss the processes set out in the flowcharts in detail to agree and understand their operation.

Goal: To achieve consensus amongst participants and AUSTRAC as to the mechanics of the flowcharts and any amendments required to be made. We anticipate that this will build on discussions had in Sessions 1 and 2 which may also inform amendment/clarifications to be made to the flowcharts.

Discussion pointers:

Do the flow charts generally align with how participants have interpreted the legislation? Are there areas of material divergence?

Are there areas of the flowcharts which are unworkable or problematic to implement from a systems perspective?

Are there any better ways of expressing any of the requirements?

Are there questions which could elicit the answer 'maybe'? If so, how do participants think these questions could best be addressed?

Are there elements/particular questions which participants feel should not be automated (i.e. as they are just difficult to automate, or are undesirable to automate)?

How prescriptive should the information to be provided in an IFTI report be before it becomes unworkable?

Time: 1:45pm – 3:45pm (2hrs)

Potential attendees (as a guide only):

Compliance, legal, technical specialists.

THEME 3: FORWARD THINKING

3.5   Session 4: Key issues for the simplification project

Objective: To discuss how the IFTI reporting process could be simplified and streamlined under Phase 2.

Goal: To understand the key issues in simplifying the IFTI reporting burden and to start to develop an outline of how the future of IFTI reporting could look for both AUSTRAC and industry participants.

Discussion pointers:

What are the goals of Phase 2?

How can the IFTI reporting process be streamlined and simplified?

How can data quality be increased?

How can the reporting burden be reduced for participants?

What are the key concerns for participants in relation to Phase 2?

Is there a role for technology in the simplification process, and if so, how do participants think this could be best harnessed? Is this something that could/should be driven by regulators?

Is there different information which could be provided in the reportable details which may be more useful/easier to collect in the future than any current fields?

Time: 3:45pm – 5:30pm (1hr 45mins, incl. afternoon tea)

Potential attendees (as a guide only):

Compliance, legal, technical specialists.

3.6 Wrap-up by KWM

Objective: To provide a wrap-up of the day's sessions and to summarise the conclusions achieved and some next steps.

Time: 5:30pm – 5:45pm (15mins)

Potential attendees (as a guide only):

Compliance, legal, technical specialists.