

31 March 2022

AUSTRAC
Guidance Consultation Team
Via email: Guidance_Consultation@austrac.gov.au

Dear Guidance Consultation Team

COBA submission on Draft Guidance Source of Funds and Source of Wealth

COBA appreciates the opportunity to provide feedback on [AUSTRAC's draft guidance](#) developed to assist reporting entities to understand and undertake source of funds and source of wealth checks on relevant customers in accordance with their money laundering obligations.

AUSTRAC have advised in the guidance that all businesses regulated by AUSTRAC must have procedures on when and how they establish a customers' source of funds and source of wealth. Further, that these checks help reporting entities to mitigate the risk that a customer's funds or wealth comes from criminal activity and protects their business and the Australian economy and community from the harms of money laundering, terrorism financing and other serious crimes.

About COBA

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has more than \$150 billion in assets and more than 4.5 million customers. Customer owned banking institutions account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

We have included feedback provided by members and also clarification COBA is seeking on guidance types issued by AUSTRAC.

Sector Feedback – Member Group 1.

Generally, we have welcomed the guidance and will use it to conduct refresher training with our AML/CTF team and ensure our ECDD processes align.

There was some discrepancy in the way the guidance presented collection and/or verification of SOF+W in relation to Applicable Customer Identification Procedures (**ACIP**) processes:

- On Page 2 of the Guidance under the heading *When to collect and verify information on the source of funds and source of wealth*, it states scenarios based on high ML/TF risk customers (incl foreign PEPs etc.) in the first paragraph and then in the third paragraph "In other cases, you should collect and verify SOF+W in accordance with AML/CTF Program".
- However then on Page 3 there are 3 dot points detailing the triggers for SOF+W 'checks' which includes "As part of your applicable customer identification procedures (ACIP) before commencing to provide a designated service to a customer".
- Further on at Page 6, there is commentary around understanding typical customer profiles and where a designated service is being used for regular salary/wages and typical mum-and-dad wealth of family home, savings and ordinary investments (to paraphrase) the need to collect and verify SOF+W would be less. [For context, our member based is typical mum-and-dad banking rather than private banking/high net worth offerings.]

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Clarity would be appreciated on AUSTRAC's expectations in relation to SOF+W collection/verification at ACIP and how these aspects of the guidance co-operate with each other.

The guidance in relation to SOF+W collection at ACIP doesn't appear to have a ML/TF risk-based qualifier. The commentary on this aspect is limited to the dot point on page 3. We are concerned that asking probing queries about specific bank account purposes and general wealth beyond that held or to be held with us is quite invasive and a poor customer experience particularly for a deposit product (without there being a high-risk indicator or other discrepancy warranting a deeper dive).

The explanations of SOF+W concepts in this Guidance go beyond asking employment/industry information that would assist in profiling expected account activity. Typically, our accounts/designated services are designed for a particular purpose or customer need (e.g., savings vs day-to-day transaction).

We otherwise note that the obligations in Chapter 4 of the AML/CTF Rules regarding ACIP mandate a minimum KYC information that must be collected/verified, with remaining KYC information collection/verification based on the Reporting Entity's AML/CTF Program (which must align to ML/TF Risk).

Member Group 2.

Our understanding has always been that collecting source of wealth and source of funds information was only a requirement for foreign PEPs and high-risk domestic PEPs. In all other circumstances it was a risk-based decision whether to collect that information or not. The guide appears to **elevate the importance of this information beyond what is required by the rules.**

The way the guide is written, it implies that source of funds/wealth should be collected in most cases: as part of ACIP, ECDD and ongoing due diligence. We are concerned that smaller banking institutions will not have the resources to collect this information as is implied by the guide.

Guidance Types and Rules – COBA

In addition to the above member points, we would appreciate clarification from AUSTRAC as to obligations under the Rules to consider all guidance types being issued. We note that there are categories specifically issued to Financial Services Sector by publication type and origination point within AUSTRAC as well as cross over topics.

For example FINTEL Alliance releases typologies and guidance information under its own cover and AUSTRAC issues [Financial Crimes Guides](#), [Regulatory Guides](#) and [Detailed Guidance](#) in addition to [Risk Assessments](#) which are all categorised under one or more industry sectors and may or may not apply to COBA members resulting in significant regulatory burden for the sector limited resources.

I hope this submission assists AUSTRAC in its consideration of the proposed Guidance. Please do not hesitate to contact Leanne Vale (lvale@coba.asn.au) if COBA can be of any further assistance.

Yours sincerely,



MICHAEL LAWRENCE
Chief Executive Officer