

Impact analysis | Regulatory reforms to AML/CTF regime

Attorney-General's Department

19 August 2024

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This artwork was developed by Marcus Lee Design to reflect Nous Group's Reconciliation Action Plan and our aspirations for respectful and productive engagement with Aboriginal and Torres Strait Islander peoples and communities.

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1 Executive summary

Background

The Attorney-General's Department (AGD) is proposing to reform Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime to address sector gaps and simplify and modernise regulations.

AGD engaged Nous Group (Nous) to undertake an impact analysis of the proposed reform options in consultation with the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Office of Impact Analysis. This includes analysis of the benefits and costs of simplifying and modernising the regime, and extending the regime to tranche two entities who provide certain high-risk services. Tranche two entities include lawyers, accountants and real estate professionals, trust and company service providers, and dealers in precious metals and precious stones.

Context for reform

Anti-money laundering and counter-terrorism financing regulation is critical to support Australia's prosperity. Each year billions of dollars of illicit funds are generated from illegal activities such as drug trafficking, tax evasion, people smuggling, cybercrime, arms trafficking and other illegal and corrupt practices. It is estimated that such examples of serious and organised crime cost the Australian economy a total of \$60.1 billion in the 2020-21 financial year¹. Australia's AML/CTF regime establishes a regulatory framework for combatting money laundering, terrorism financing and other serious financial crimes.

Australia is currently assessed as deficient in key areas of compliance by the Financial Action Task Force (FATF), an intergovernmental body established in 1989 to protect the global economy from the threats of money laundering, terrorism financing and proliferation financing. Australia's deficiencies against the FATF Standards have been identified across several key areas including the regulation of designated non-financial businesses and professionals, the regulation of virtual assets, and transparency of beneficial ownership. Australia is scheduled to undergo a FATF Mutual Evaluation in 2026-27 and must demonstrate progress in addressing the identified deficiencies or otherwise risk serious consequences.

Objectives of reform

The proposed reforms to the AML/CTF regime have three objectives:

1. Combatting crime through greater volume and quality of financial reporting from regulated entities to support actionable financial intelligence, and closing regulatory gaps that criminals can exploit
2. Strengthening FATF compliance
3. Minimising regulatory burden for the regulated population.

Reform categories and policy options

The effectiveness of Australia's AML/CTF regime is currently limited by gaps in regulated sectors and over-complexity. Three proposed reform categories have been developed to address these issues:

1. Simplifying, clarifying and modernising the AML/CTF regime
2. Modernising digital currency and payments technology-related regulation
3. Addressing vulnerabilities in sectors providing certain high-risk services (tranche two industries).

Existing regulated entities include financial service providers, bullion traders, gambling services, digital currency exchange providers (DCEP) and remitters. Tranche two industries which an expanded regime would regulate, include legal services, accounting services, trust and company services, real estate and dealers in precious metals and stones.

¹ R. Smith & A. Hickman (2022), *Estimating the costs of serious and organised crime in Australia, 2020-21*, Australian Institute of Criminology.

The proposed reforms under each of these three categories are summarised in Table 1.

Table 1 | AML/CTF reforms by category

Category 1	Category 2	Category 3
- Streamlining Parts A and B of AML/CTF programs² - Updates to AML/CTF risk assessment and Compliance Officer requirements - Group risk management, information sharing, and the Tipping Off offence - Customer risk rating and initial Customer Due Diligence (CDD) - Changes to CDD - Decreases to the gambling threshold for CDD reporting - Repeal of the Financial Transaction Reports (FTR) Act	- Expand range of digital currency-related services regulated - Updates to the travel rule - Simplify reporting obligations for international funds transfer instructions (IFTI) - Streamline the framework for regulating transfers of value across borders	Newly regulated entities will be required to comply with the AML/CTF regime. This will require: - Enrolling with AUSTRAC and maintaining enrolment - Developing, maintaining and reviewing the AML/CTF Program - Developing a risk assessment process - AML/CTF Compliance Officer reporting - Updating the employee due diligence program - Designing and running an AML/CTF training program - Undertaking upfront and ongoing CDD in line with AML/CTF requirements - Reporting - Record-keeping

This Impact Analysis considers four options that were developed by AGD. These options comprise different combinations of the reform categories, as outlined below. The options were agreed with the Office of Impact Analysis:

- Option 1 | Maintain status quo** (Retain existing AML/CTF legislation and Rules)
- Option 2 | Simplify and modernise regime** (Category 1 and 2)
- Option 3 | Expand regime to tranche two entities only** (Category 3)
- Option 4 | Modernise and simplify regime and expand to tranche two entities** (Category 1, 2 and 3)

Impact analysis methodology

The potential impacts of the four policy options were assessed, including the benefits and the quantified and qualitative costs. Due to the complex and inherently covert nature of money laundering, quantifying the effect of the proposed changes to the regime on the scale of money laundering in Australia has been undertaken through a combination of quantitative and qualitative analysis, including the consideration of benefit scenarios based on various assumptions.

Four overarching types of impacts were assessed relative to the status quo (Option 1):

- Benefits of combatting crime
- Benefits of avoiding a poor FATF Mutual Evaluation result
- Changes to regulatory burden on the regulated population (businesses and their customers)

² Note: The purpose of Part A of the program is to identify, mitigate and manage the risks associated with the entity providing a designated service, while Part B of the program sets out the entity's applicable customer identification procedures. The requirements for Parts A and B of AML/CTF programs are spread across the Act and Rules.

- Costs to government of operating the revised regime.

The impact analysis applied a range of information sources, including domestic and international academic literature as well as AUSTAC, the Australian Institute of Criminology (AIC), the Australian Taxation Office (ATO), and the Australian Federal Police (AFP) data on the benefits and uses of financial intelligence data. Information was also collected from reporting entities and tranche two entities on the estimated time, effort and cost required to comply with regime obligations. Analysis throughout this report has applied a ten-year timeframe, beginning in FY25.

Industry stakeholder input was sought through two separate approaches. Firstly, surveys of existing regulated entities and tranche two entities were used to collect information on the current and expected future regulatory burdens placed on businesses under the current and proposed regime. A total of 109 completed responses across regulated and tranche two entities were analysed to develop the estimates of regulatory burden. Secondly, Nous undertook targeted consultations with five businesses providing AML/CTF services to supplement information provided by regulated entities. These consultations assisted in understanding and validating the likely costs that businesses may face if they were to outsource specific components of their AML/CTF obligations, as well as other factors that would influence the implementation of the reforms.

A decision tool was applied to determine the option that is expected to provide the highest net benefits (the preferred option). The costs and benefits of the options have been assessed, with a multi-criteria analysis (MCA) applied to determine the preferred option due to the challenges of insufficient data to fully quantify the benefits.

Benefits of combatting crime

Reform to AML/CTF regulation is expected to both deter criminal activity by equipping businesses with the tools to detect, prevent and report money laundering and terrorism funding, and support law enforcement to act on greater financial intelligence and prevent these activities.

The benefits of reducing the effectiveness of money laundering techniques and increasing the effectiveness of money laundering investigations is expected to reduce the overall level of crime committed, and therefore reduce the cost of crime across the economy. This includes illicit drug activity and harm, the consequences of serious and organised crime, cybercrime, human trafficking and modern slavery, and child exploitation.

The key benefits for Australian businesses, the community and government from enhancing the strength and coverage of the AML/CTF regime include³:

- Reduced criminal activity and the associated cost of crime by reducing criminals' ability to profit from and invest in criminal activities.
- Greater asset confiscations associated with criminal activities.
- Increased tax revenue through greater recovery of unpaid tax.
- Reduced price inflation of certain goods, services or asset classes targeted by money laundering syndicates.
- Reduced harm from terrorism activity by disrupting terrorism financing and reducing the probability of a terrorist incident occurring; and reduced loss of tourism activity by promoting a safer international image for Australia.

While the benefits of combatting crime are significant, they are difficult to quantify. This analysis has quantified benefits associated with the greater use of intelligence to better detect criminal activity and deter criminal profits from being laundered through high-risk industries. These benefits are derived from the greater volume and quality of sources of intelligence from the inclusion of additional designated

³ Several benefits included are identified and explored in Schmidt A 2024. Impacts of money laundering and terrorism financing: Final report. Special reports. Canberra: Australian Institute of Criminology. <https://doi.org/10.52922/sp77543>

services and industries within the AML/CTF regime. This will help to close existing gaps that can be exploited by criminals.

The greatest increase in designated services under surveillance will be from the expansion of the AML/CTF regime to tranche two industries under Options 3 and 4. The quantified benefits of these Options are estimated to be \$2.2bn to 2.4bn over the next 10 years. Table 2 provides a breakdown of these impacts. Option 2 is expected to increase surveillance over a limited number of designated services and therefore will not provide the benefits of Options 3 and 4.

Table 2 | Total estimated quantifiable benefits of combatting crime (Options 3 and 4)

Benefit	Ten-year impact (\$m NPV)
Reduction in illicit drug harm through prevented money-laundering through tranche two sectors	200 to 401
Increased asset confiscations from criminal networks	296
Reduced crime harm associated with avoided re-investment of criminal proceeds due to asset confiscations.	1,487
Increased tax revenue through greater recovery of unpaid tax	221
Total	2,204 to 2,405

It is likely that the benefits of combatting crime are significantly larger than the value that has been quantified above. This is because there are limitations in the availability of data to more fully quantify the impacts of the proposed AML/CTF reforms. Overall, Option 4 would be expected to deliver the greatest benefit as it expands surveillance over tranche two industries as well as the additional designated services included within the Category 1 and 2 reforms.

Benefits of strengthening FATF compliance

The proposed reforms will assist in addressing FATF recommendations with which Australia is non-compliant or partially compliant. The reforms would enable Australia to implement global best practice measures to detect and disrupt money laundering, terrorism financing and other crimes.

Under Option 2, the Category 1 and 2 reforms would be expected to improve Australia's compliance with two FATF recommendations currently rated as partially compliant. However, it would not substantially address any of Australia's non-compliant recommendations. Under Option 3, the expansion of the existing AML/CTF regime to tranche two entities without implementing the Category 1 and 2 reforms would improve compliance with the three in-scope non-compliant recommendations. Option 4 would address the three in-scope non-compliant recommendations and the two partially compliant FATF recommendations.

Becoming more compliant with the recommendations and demonstrating a continued commitment to tackling money laundering and terrorism financing is crucial to Australia not being 'grey-listed' and added to the list of jurisdictions that are under increased monitoring. In the absence of the proposed reforms, if Australia was 'grey-listed', this could carry serious potential consequences, including:

- Economic impacts, including a negative impact on GDP, based on reduced incoming capital flows, lowered credit rating, increased business costs and potential loss of correspondent banking relationships
- Increased threat of criminals seeking to exploit perceived weaknesses in Australia's system and engage in illicit financial activity—leading to an increased burden on law enforcement

- Reduced influence as a regional AML/CTF leader and capacity to assist countries in our neighbourhood to combat ML/TF threats
- Damage to Australia's international standing, reputation and influence.

With Australia's significant level of foreign direct investment (\$1,180bn), portfolio investments in equity (\$858bn) and in debt from foreign sources of finance (\$1,429bn) in 2023⁴, any reduction in Australia's foreign investment could significantly impact Australia's economy. Therefore, avoiding being 'grey-listed' by strengthening FATF compliance could provide a significant economic benefit for Australia.

Literature on the economic consequences of countries being 'grey-listed' has found mixed results. Kida and Paetzold (2021) found that grey-listing resulted in foreign direct investment inflows and portfolio investment inflows for 89 emerging and developing countries declining temporarily by approximately 3%.⁵ Other literature has identified weaker or no impacts of grey-listing on foreign investment inflows.

Based on this literature, it is unclear the extent to which there would be a negative impact for Australia as a result of being 'grey-listed' and how long any negative impact would endure. While it remains a possibility and a risk, it is also unknown whether Australia would be grey-listed if it did not implement the proposed reforms to its AML/CTF regime. Given these significant unknowns, five indicative scenarios have been developed to provide an indication of the potential economic benefits of avoiding a reduction in foreign investment in Australia.

These scenarios are outlined in Table 3, and differ in the assumed percentage reduction of foreign investment inflows and the expected duration of the impact. The relative likelihood of each scenario is unknown based on the available evidence.

The first scenario reflects the case where Australia would not be 'grey-listed' in the absence of the proposed reform to Australia's AML/CTF regime. In this scenario, Australia would not experience any reduction in foreign investment relative to the current situation. Therefore, implementing the reforms would not be expected to directly result in any change in Australia's foreign investment levels.

Across scenarios 2 to 5, two reductions in foreign investment inflows are considered: 0.5% and 1.5%. These assumptions are lower than the approximate 3% reduction identified in Kida and Paetzold (2021). This reflects the structural and reputational differences between Australia's economy and smaller developing economies. Also, as Australia's non-compliance with the FATF recommendations is primarily related to the lack of AML/CTF regulation of tranche two entities, it is assumed that 'grey-listing' would not have the same impact on foreign investment across the whole economy. As certain sectors, including financial services, are already regulated under the AML/CTF regime, foreign investors are less likely to be deterred from continuing to invest in these industries given the continued strength of their AML/CTF requirements and compliance under the oversight of AUSTRAC and other financial regulators. Any residual risks related to financial services handling tranche two entity transactions (e.g., real estate) would also exist under the status quo with tranche two entities not covered by the AML/CTF regime. This situation of strong financial sector regulation and oversight may not be the case in the smaller, developing economies considered in the literature.

In addition, for smaller developing and emerging markets that receive comparatively less foreign investment compared to Australia, 'grey-listing' may act as a stronger signal to foreign investors of the risks of investing in these countries than they would for Australia, which is a well-known, established international market for investment. Given these differences, an assumed 1.5% reduction in foreign was considered to provide a reasonable upper bound for this analysis, with an alternative assumption of a 0.5% reduction designed to reflect the possibility of 'grey-listing' leading to a more moderate reduction in foreign investment inflows.

Two different durations of the impact were considered to reflect that non-regulatory responses may or may not occur within the Australian economy to offset and/or address any actual or anticipated reductions

⁴ Australian Bureau of Statistics (2023), International Investment Position, Australia: Supplementary Statistics, ABS Website.

⁵ Kida, M. and Paetzold, S., 2021. *The impact of gray-listing on capital flows: an analysis using machine learning*. International Monetary Fund.

in foreign investment as a result of a 'grey-listing' decision by FATF. The two durations for reduced foreign investment inflows are a single year impact only or an eight year impact (based on a FATF Mutual Evaluation outcome in FY27).

Table 3 | Scenario analysis – illustrative benefit of avoided reduction in foreign investment in Australia

Scenario	Reduction in annual foreign investment inflows (%)	Period of impact	Reduction in foreign investment over ten years (\$m, NPV) ⁶
1	0%	Nil	0
2	0.5%	FY27 only	560
3	1.5%	FY27 only	1,680
4	0.5%	FY27 – FY34	3,570
5	1.5%	FY27 – FY34	10,720

Based on these parameters, the estimated benefits from avoiding 'grey-listing' could range from \$0 to \$10.7bn in net-present value (NPV) terms over ten years. These estimates are illustrative only as they are based on a series of assumptions reflecting the inherent uncertainties about whether Australia would be 'grey-listed' and, if so, the expected impacts of any 'grey-listing' on a developed economy with established international markets and a sophisticated financial regulatory system.

Regulatory burden of the proposed reforms

The proposed AML/CTF reforms will impact both existing regulated entities and tranche two entities. These impacts could include changes in staffing effort to implement or deliver on AML/CTF regulatory obligations, commissioning of external advice or services, and/or investment in upgraded systems. Depending on the specific reform area and the industry and size of the business, the impact could be either an additional cost burden or a reduction in the existing cost burden.

In estimating the potential benefits or costs of the proposed reforms, it is important to note that tranche two businesses would not be 'starting from scratch' – that is, many already have existing processes and mechanisms (e.g. customer due diligence and record keeping) which are relevant to AML/CTF regime regulatory obligations. This reduces the additional burden that would be placed on these businesses from being captured by the AML/CTF requirements. The analysis estimates the additional upfront and ongoing costs beyond the relevant activities already undertaken by tranche two entities.

Option 2 (Category 1 and 2 reforms) is estimated to result in an upfront regulatory burden of around \$350m to businesses, consisting of the costs to understand the new requirements and update systems and processes to comply with them. Option 2 provides an estimated annual reduction in regulatory burden of \$18m each year in real terms. Table 4 presents the estimated annual regulatory burden in present value terms (e.g., a saving of \$17m in FY26) incorporating the Office of Impact Analysis (OIA) recommended discount rate. These burden reductions are driven primarily by a reduction in the ongoing cost of conducting CDD. Simplification of the regime under the Category 1 reforms is estimated to lead to an ongoing saving of \$153m between FY26 and FY34.

The Category 3 reforms, when implemented independently of the Category 1 and 2 reforms (Option 3), are estimated to result in an upfront regulatory burden of around \$1.82bn, consisting of the costs for tranche two industries to understand their AML/CTF obligations and implement the systems and processes necessary to comply with them. The Category 3 reforms are estimated to result in an additional annual burden of \$2.14bn in real terms for tranche two industries in each subsequent year (presented in Table 4 in present value terms incorporating the OIA recommended discount rate; e.g., a burden of \$1,998m in

⁶ Nous has equated the total change in foreign investment inflows to the total economic benefit for Australia, given the difficulty in estimating a causal effect and the mixed results in the literature of any multiplier effect on GDP. This approach is explained in further detail in Section 5.2.

FY26). This is driven by the ongoing costs of completing CDD and maintaining and reviewing their AML/CTF programs.

Implementing the Category 1,2 and 3 reforms together (Option 4) is estimated to result in an additional upfront regulatory burden for businesses of around \$1.85bn (inclusive of the upfront \$0.35bn burden relating to Category 1 and 2 reforms), with an ongoing additional burden of \$1.85bn in each following year in real terms (presented in Table 4 in present value terms, e.g., a burden of \$1,730m in FY26).

Table 4 | Ten-year regulatory burden for businesses by option and financial year (\$m, NPV)

Option	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	Total
Option 2	350	-17	-16	-15	-14	-13	-12	-11	-10	-10	233
Option 3	1,823	1,998	1,867	1,745	1,631	1,524	1,424	1,331	1,244	1,163	15,751
Option 4	1,850	1,730	1,617	1,511	1,412	1,320	1,233	1,153	1,077	1,007	13,910

The Category 1 and 2 reforms (Option 2) are estimated to result in a total ten-year additional regulatory burden of \$233m, inclusive of the ongoing saving from simplification of the regime due to Category 1 reforms amounting to \$153m between FY26 and FY34. The Category 3 reforms (Option 3) are estimated to result in an additional \$15.8bn of regulatory burden to business if implemented independently. However, implementing the Category 1 and 2 reforms in combination with the Category 3 reforms (Option 4) is estimated to result in an additional regulatory burden of \$13.9bn over ten years, reducing the regulatory burden of the Category 3 reforms by approximately \$1.9bn. A summary of change in regulatory burden by reform option is presented in Table 5.

Table 5 | Estimated total ten-year regulatory burden to businesses, by option and category (\$m, NPV)

Category	Frequency	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Category 1	Upfront	261	-	261
	Ongoing	-153	-	-153
Category 2	Upfront	89	-	89
	Ongoing	36	-	36
Category 3	Upfront	-	1,823	1,500
	Ongoing	-	13,928	12,177
Ten-year total		233	15,751	13,910

There are key limitations to this regulatory burden analysis. Impact modelling is sensitive to several assumptions. Firstly, analysis is subject to estimation of the number of tranche two entities to be regulated, particularly trust and company service providers. Secondly, the regulatory burden analysis is heavily dependent on the input provided by industry. Businesses, both existing and tranche two entities, provided input on the expected burden implications for their business operations that would result from the proposed reforms. As the proposed changes to the regime are not yet fully understood and are still subject to further consultation, the input provided by businesses may not reflect a full understanding of how the changes would operate in practice. This is particularly important for tranche two entities who are not currently subject to any AML/CTF regulation. Estimates of regulatory burden therefore reflect the best efforts and understanding of the affected stakeholders over a limited timeframe. Businesses noted that

their estimates of compliance effort and costs were not final and could not be settled until further detail on the reforms is provided by the government.

Impact analysis is built upon estimates of the average expected changes in regulatory burden per business (upfront and annual ongoing) by industry and business turnover. Business turnover groups include: \$0 to \$200,000, \$200,000 to \$2m, \$2m to \$10m, and \$10m+. The indicatively estimated impacts per business are described in Table 6 which presents the estimated average upfront and ongoing annual costs, by business turnover and reform category, for Option 4. The values in Table 6 are presented in real terms to reflect the expected upfront and ongoing annual costs that businesses would be expected to incur in each future year. This is prior to applying the OIA's recommended discount rate to calculate a present value, which is more appropriate for describing overall effects where impacts occur across several years. Where values are presented in either real or NPV terms, this has been noted in the heading for the respective table or figure.

For currently regulated entities who would comply with Category 1 and 2 reforms, the estimated upfront costs increase with the size of business (average per business ranges from \$9,060 to \$156,730 in real terms), partly driven by their operational complexity and therefore the effort to understand the new requirements of the reforms for their business and update relevant processes. The largest regulated entities (\$10m+ in turnover) are expected to experience notable ongoing savings, while businesses with turnover between \$0 and \$2m are anticipated to experience, on average, small increases in regulatory burden. For \$10m+ entities, this is primarily driven by their large CDD programs that would benefit from the proposed simplified CDD and risk rating requirements. Smaller businesses have fewer customers and therefore are not expected to experience the same scale of decreases in CDD costs.

For tranche two entities, estimated upfront burden also scales with business turnover (average upfront cost ranges from \$4,460 to \$85,550 in real terms). The largest estimated upfront costs for most businesses are expected to relate to developing an AML/CTF program, followed closely by revising their CDD processes. For all business sizes, the largest estimated annual ongoing cost will be maintaining their AML/CTF program.

Table 6 | Average regulatory burden per business (\$, real terms) under Option 4, by turnover⁷

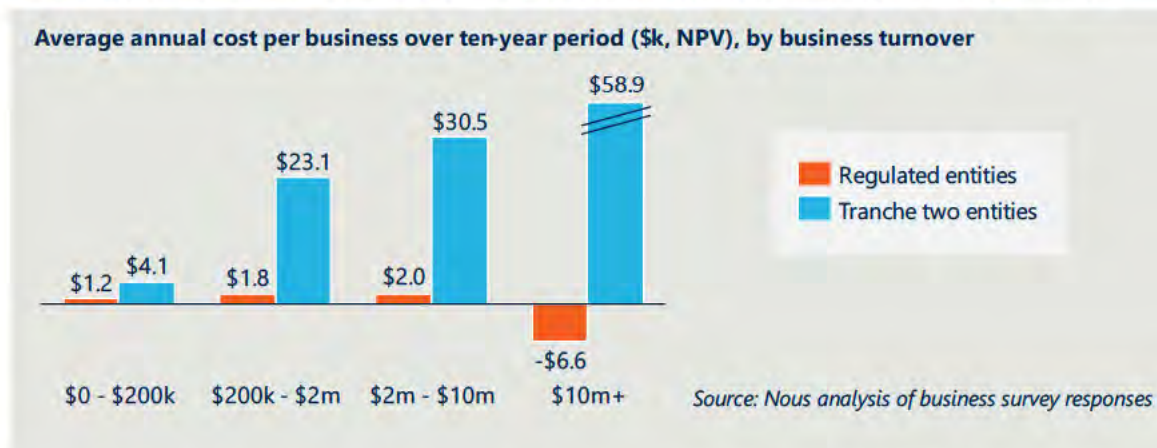
	Frequency	Business turnover range			
		\$0 - \$200k	\$200k - \$2m	\$2m - \$10m	\$10m+
Regulated entities	Upfront impact	9,060	15,530	23,420	156,730
	Annual ongoing impact	420	480	-580	-36,650
Tranche two entities	Upfront impact	4,460	28,650	38,130	85,550
	Annual ongoing impact	6,020	33,230	43,750	82,660

The higher upfront impact for regulated entities compared to tranche two entities for the \$10m+ turnover group is due to the system and process updates regulated entities will need to make in relation to the Category 2 reforms (i.e., expansion of digital currency-related services, system updates for new travel rule). The higher upfront costs for regulated entities in the \$0 to \$200,000 turnover group relative to tranche two is driven by their anticipated need to understand their new AML/CTF obligations and update their CDD processes. This is because financial services (which comprise the majority of this turnover size group) tend to provide a greater number of designated services than tranche two entities in this turnover size group.

⁷ The regulatory burden for regulated entities in this table excludes the expected burden attributable to the reform to the threshold for CDD reporting for gambling service providers. This is due its relevance to one industry rather than all regulated entities.

The average annual regulatory burden per business, inclusive of upfront and all ongoing costs, over a ten-year period is presented in Figure 1. The estimated average annual cost for a tranche two entity ranges from \$4.1K in NPV terms (or \$5.9k in real terms) for the \$0 to \$200,000 turnover group compared with up to \$58.9K in NPV terms (or \$82.9k in real terms) for the largest entities.

Figure 1 | Average annual regulatory burden per business (\$k, NPV) under Option 4, by turnover



A summary of the total estimated ten-year change in regulatory burden to business for each relevant industry is presented in Table 7. For tranche two industries, differences in estimated regulatory burden would be driven predominantly by the number of businesses.

Table 7 | Estimated ten-year regulatory burden to businesses, by option and industry (\$m NPV)

Category ⁸	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Financial services	84	-	84
Bullion traders	2	-	2
Gambling services	99	-	99
Digital currency exchange providers	10	-	10
Remitters	40	-	40
Accounting services	-	4,148	3,682
Legal services	-	3,355	2,883
Trust/company services	-	1,310	1,135
Real estate	-	6,843	5,892
Dealers in precious metals and stones	-	95	84
Ten-year total	233	15,751	13,910 ⁹

⁸ Reporting entities were assigned to a category according to the primary industry in which they operate to prevent double counting of businesses offering services across multiple sectors (e.g. financial services and digital currency exchange).

⁹ The totals in this table row are adjusted to include a \$1.7m reduction in regulatory burden to Cash Dealers under Category 1 reforms due to the repeal of the FTR Act, which is not called out as a separate industry in the table.

The average upfront and annual ongoing regulatory burden per business for each reform impact is estimated to differ across industries. This is illustrated in Figure 2 and Figure 3, which presents the average business costs faced under Option 4, where all reform categories would be implemented.

The average upfront cost per business (Figure 2) is anticipated to be largest for the financial services and DCEP industries, given their average larger business size, complexity, and customer base, and being affected by both Category 1 and Category 2 reforms, unlike other already regulated industries. Figure 3 shows that the average ongoing annual cost for a tranche two entity is estimated to range between \$13,400 and \$22,100 depending on the industry.

It is important to note this reflects the average cost of all business sizes, and therefore does not reflect the expected impacts for sole traders or small businesses which are better described in Table 6 and Figure 1. This analysis has not considered the extent to which businesses (of any turnover size) may (or may not) pass on some or all of this additional regulatory burden to their customers. Any passing on of these costs would mean the final incidence of regulatory burden would be split between businesses and their customers.

Figure 2 | Estimated average upfront regulatory burden per business, in real terms, under Option 4

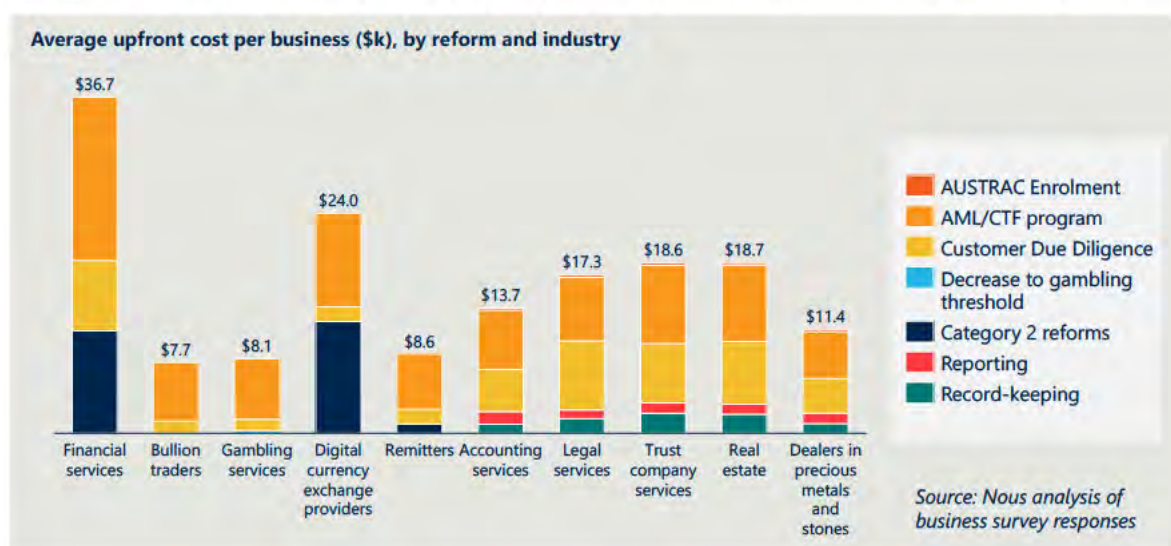
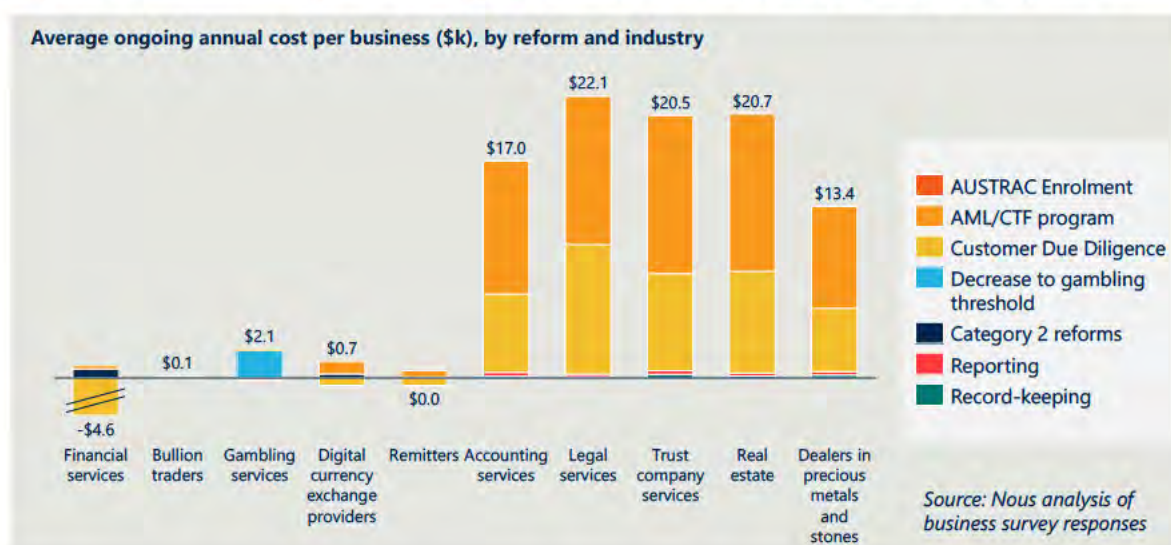


Figure 3 | Estimated average annual ongoing burden per business, in real terms, under Option 4



Impacts will also extend to the customers of designated services that these businesses offer. The estimated change in regulatory burden for customers of existing regulated entities relates to the change in CDD obligations that may impact the level of identification information that customers of these regulated entities are required to provide. This includes the estimation of savings where simplified CDD can streamline current CDD processes requirements. The estimated change in regulatory burden for customers of tranche two entities relates to changes in CDD processes to meet the AML/CTF obligations that may require customers of these regulated entities to provide additional identification information.

This burden is summarised in Table 8. Option 3 is estimated to result in the largest change in ten-year regulatory burden (an additional \$379m). The estimated burden is attributable to the additional time for customers of tranche two entities to provide additional identification information compared to existing requirements. Simplification of the regime relevant under Option 4 is expected to result in a smaller increase in regulatory burden (\$209m).

For Category 1, the increase (\$2m) is primarily driven by the additional number of customers that would be expected to provide identification information due to the decrease in the threshold for reporting for gambling service providers.

Table 8 | Estimated ten-year impact to customers, by option and category (\$m, NPV)

Reform	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Category 1	2	-	2
Category 2	-	-	-
Category 3	-	379	207
Ten-year total	2	379	209

Costs to government

The indicative annual cost to government of operating an expanded AML/CTF regime through AUSTRAC under Option 3 and 4 is estimated to be around \$125m to \$185m per year in the future. Furthermore, the Australian Government's Budget for FY25 and FY26 committed \$160.8m dollars for AUSTRAC to expand its regulatory, intelligence and data capabilities and provide guidance to newly regulated entities¹⁰. Together, this would result in a NPV of \$1.03bn over a ten-year period from the 2025 financial year.

As the change to operate the regime under Category 1 and 2 reforms cannot be quantified and would likely be minimal, no known cost for Option 2 is provided.

Determination of preferred option

The estimated benefits and costs of the proposed AML/CTF reforms are substantial, particularly relating to the expansion of the regime to tranche two industries under Options 3 and 4. As outlined, while the benefits of the reforms are expected to be significant in combatting crime and strengthening FATF compliance, they are difficult to quantify. For Options 3 and 4, the quantified benefits are estimated to range between \$1.8 billion and \$12.5 billion over the ten year period. This compares with the estimated costs of the proposed reforms which are estimated at \$15.8 billion for Option 3 and \$13.9 billion for Option 4 over the next ten years. As noted, delivering the simplification of the AML/CTF regime before expanding the regulations to tranche two entities is estimated to reduce the costs to tranche two entities by approximately \$2 billion.

¹⁰ Mark Dreyfus KC MP, 2024, 'Boosting Australia's anti-money laundering and counter-terrorism financing regime', accessed 12 July 2024 from: <https://ministers.ag.gov.au/media-centre/boosting-australias-anti-money-laundering-and-counter-terrorism-financing-regime-06-05-2024>

A summary of these quantifiable and unquantifiable benefits and costs for each option is presented in Table 9. The quantified benefits represent a partial analysis only due to insufficient available data on the effects of AML/CTF requirements to quantify several important benefits. This includes the benefit of reduced criminal activity and the associated cost of crime (such as the consequences of serious and organised crime, cybercrime, human trafficking and modern slavery, and child exploitation) which are expected to occur through deterrence and reducing the effectiveness of money laundering techniques and increasing the effectiveness of money laundering investigations.

Table 9 | Summary of quantified ten-year impacts by option (\$bn, NPV)

Ten-year impact (\$m)	Option 2	Option 3	Option 4
<u>Benefits of combatting crime:</u>			
• Reduction in illicit drug harm through prevented money-laundering through tranche-two sectors			
• Increased asset confiscations from criminal networks			
• Reduced crime harm associated with avoided re-investment of criminal proceeds due to asset confiscations	Unknown	2.2 to 2.4	2.2 to 2.4
• Increased tax revenue through greater recovery of unpaid tax			
<u>Other benefits of combatting crime:</u>			
• Other reductions in crime harm associated with other crimes through preventing money laundering in other industries			
• Reduced price inflation of certain goods, services or asset classes targeted by money laundering syndicates	Unable to be quantified		
• Reduced loss of life from terrorism activity, and reduced loss of tourism activity by promoting a safer international image for Australia			
<u>Benefit of strengthening FATF compliance:</u>			
• Avoided reduction in foreign investment inflows related to grey-listing	Unknown	0 to 10.7	0 to 10.7
<u>Other benefits of strengthening FATF compliance:</u>			
• Avoided increase in business costs			
• Avoided reputational damage to Australia	Unable to be quantified		
• Avoided reduction in influence as a regional AML/CTF leader			
Total quantified benefit	n/a	2.2 to 13.1	2.2 to 13.1
Cost - Change in regulatory burden (business and customers)	0.2	16.1	14.1
Cost to government	Unknown	1.0	1.0
Total quantified cost	0.2	17.1	15.1

Given these challenges with quantifying the full range of expected benefits, a MCA decision tool was applied to determine the option that is expected to provide the highest net benefits (the preferred option). The criteria across benefits and cost impacts, weightings and scores for each option are presented

in Table 10. The benefit impacts of reform (Options 2 to 4) relate to avoiding the significant costs that would be incurred under the status quo (Option 1). These benefits are scored relative to Option 1. However, in practice, Option 1 cannot be viewed as a 'no impact' option. Failure to act would likely result in negative impacts in the future, including:

- Enabling gaps and challenges for law enforcement that continue to create opportunities for criminals to exploit, increase our exposure to illicit finance, and consequences arising from crime harm, national security threats and lost tax revenue
- Reputational risks from falling further behind as FATF Standards continue to evolve and strengthen, creating negative perceptions of Australia for not acting to address critical deficiencies in its AML/CTF regime, and for businesses who may be vulnerable to exploitation
- The possibility of additional regulatory burden for businesses as complex obligations are less able to support emerging technology and changing business practices.

Table 10 | MCA option assessment

Criteria	Weight	Option 1: Status-quo	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Combatting crime – Community and business	20%	0	2	9	10
Combatting crime – Government	15%	0	2	9	10
Strengthening FATF compliance	15%	0	2	9	10
Business burden	40%	0	-2	-10	-9
Customer burden	5%	0	0	-2	-1
Government costs	5%	0	0	-3	-3
Total	100%	0	0.2	0.25	1.2

Using MCA as the decision tool, Option 4 was determined to be the preferred option. Option 4 involves modernising and simplifying the existing regime and expanding it to tranche two entities (lawyers, accountants and real estate professionals, trust and company service providers, and dealers in precious metals and precious stones).

Option 4 is expected to deliver significant benefits from the expansion of the AML/CTF regime to include tranche two entities, delivered at a lower cost than Option 3. Option 4 is estimated to yield higher net benefits than Option 3 due to the inclusion of the Category 1 and 2 reforms which are designed to improve compliance with the existing regime, and greater oversight of digital currency transactions. These Category 1 and 2 reforms (under Option 4) are estimated to reduce the burden associated with the ongoing requirements of the AML/CTF regime for both existing regulated entities and tranche two entities.

2 Reform context and options

2.1 Context for reform

Anti-money laundering and counter-terrorism financing regulation is important for Australia's prosperity.

Each year billions of dollars of illicit funds are generated from illegal activities such as drug trafficking, tax evasion, people smuggling, cybercrime, arms trafficking and other illegal and corrupt practices.

Money laundering is the process of disguising or concealing the origin of illicit funds to make it appear that the funds come from a legitimate source. Terrorism financing encompasses the means and methods used by terrorist organisations to finance activities that pose a threat to national and international security.

International research has found Australia to be a prominent destination for money laundering, indicatively estimating the amount of domestic money laundered to be 1.7 per cent of Australia's gross domestic product (GDP), and when flowthroughs and laundering of foreign criminal money are added, up to 2.3 per cent of GDP. These figures equate to approximately \$45 billion and \$60 billion, respectively¹¹. This will only increase as criminal organisations continue to exploit legitimate businesses and innocent Australians without appropriate measures to address transnational serious and organised crime in Australia.

Australia's anti-money laundering and counter-terrorism financing regime establishes a regulatory framework for combatting money laundering, terrorism financing and other serious financial crimes. The current regime is established by the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (the Act)* which includes regulation for reporting entities in the financial, remittance, gambling and bullion sectors. Further details on regulation is provided in the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1)* (the Rules). The Act and the Rules work in tandem with the *Financial Transactions Report Act 1988 (Cth)* which contains residual reporting obligations for cash dealers.

The Act provides the means to help deter, detect and disrupt money laundering and terrorism financing. The reporting obligations under the Act also provide financial intelligence to revenue, law enforcement and national security agencies. The Act aims to implement a risk-based approach to regulation and set out general principles and obligations for reporting entities to apply to their business. Businesses must meet the minimum obligations set out in the Act and the Rules. Six key obligations include enrolment and registration with AUSTRAC, developing and maintaining an AML/CTF program, conducting customer due diligence (CDD), conducting ongoing CDD, reporting, and record keeping.

Australia is assessed as currently deficient in key areas of FATF compliance.

The Financial Action Task Force is an intergovernmental body established in 1989 to protect the global economy from the threats of money laundering, terrorism financing and proliferation financing. Its membership consists of 39 jurisdictions, including Australia, all G20 countries, and a global network of FATF-Style Regional Bodies. It sets global standards for combatting financial crime and promotes compliance and effective implementation of the standards through peer assessment mechanisms—known as Mutual Evaluations—and public listing of jurisdictions found to have weak AML/CTF systems.

The FATF Standards set out a comprehensive and consistent framework of measures to combat money laundering, terrorist financing and proliferation financing. They comprise 40 Recommendations on the legal, regulatory and technical AML/CTF mechanisms countries are required to implement, and 11 Immediate Outcomes that relate to the effectiveness of AML/CTF systems. Each country's technical

¹¹ Joras Ferwerda, Alexander van Saase, Brigitte Unger and Michael Getzner, 'Estimating money laundering flows with a gravity model-based simulation' (2020) 10(18552) *Scientific Reports*, 6. Note, AUD figures have been calculated using Australia's nominal GDP as at 31 Dec 2023. <<https://www.nature.com/articles/s41598-020-75653-x>>.

compliance with the Recommendation is assessed by the FATF as compliant (C), largely compliant (LC), partially compliant (PC) or non-compliant (NC). An ongoing failure to comply with

The FATF continually reviews jurisdictions based on how their systems address AML/CTF risk. Failure to demonstrate the effectiveness of AML/CTF systems can lead to countries being identified as having strategic AML/CTF deficiencies that present a risk to the international financial system, and being 'grey- or black-listed'. The FATF's International Co-operation Review Group (ICRG) oversees this process and closely monitors listed jurisdictions' progress.

The FATF Standards set out the essential measures that countries should have in place across their AML/CTF systems, including to:

- Identify money laundering risks, and develop policies and domestic coordination mechanisms to address them
- Investigate and prosecute money laundering, terrorist financing and proliferation financing
- Apply preventative measures for the financial sector and other designated sectors
- Establish powers and responsibilities for competent authorities
- Facilitate national coordination and international cooperation.

Currently Australia is compliant with 18 of the recommendations and largely compliant with 12 others. However, Australia is currently only partially compliant with six recommendations (two of which are in scope for the current reforms; #15 and #16) and non-compliant with 4 (three of which are in scope for the current reforms, #22, #23, #28). Key thematic areas of the FATF Standards in which Australia is currently assessed as having deficiencies include:

- Regulation of designated non-financial businesses and professions
- Regulation of Virtual Assets
- Understanding of money laundering, terrorist financing and proliferation financing risks
- Transparency of beneficial ownership of legal persons and arrangements
- Supervision by competent authorities (including supervision of UN Security Council sanctions compliance)
- Money laundering and terrorism financing investigations.

Australia must demonstrate progress in addressing deficiencies or risk serious potential consequences.

Australia has undergone two Mutual Evaluations in 2005 and 2015 - with the next one scheduled for 2026-27. As a full FATF member, Australia will be subject to high expectations, and is currently at risk of grey listing due to its failure to address long-standing compliance gaps, most critically, its failure to regulate designated non-financial businesses and professions. The upcoming Mutual Evaluation will consider Australia's performance against Immediate Outcomes and Recommendations since its last Mutual Evaluation in 2015, (and two follow-up reports on technical compliance in 2018 and 2024) including its progress in addressing identified deficiencies.

A strong Mutual Evaluation result is important for Australia to demonstrate its effectiveness in fighting money laundering, terrorism financing and proliferation financing, and to send a powerful signal that criminals and other malign actors cannot easily exploit Australia's financial system. Conversely, a poor Mutual Evaluation result could lead to Australia being publicly identified by FATF and potentially 'grey-listed' for having a weak AML/CTF system. This could carry serious potential consequences, including:

- Economic impacts and decreased GDP based on reduced incoming capital flows, lowered credit rating, increased business costs and potential loss of correspondent banking relationships

- Increased threat of criminals seeking to exploit perceived weaknesses in Australia's system and engage in illicit financial activity—leading to an increased burden on law enforcement
- Reduced influence as a regional AML/CTF leader and capacity to assist countries in our neighbourhood to combat ML/TF threats
- Damage to Australia's international standing, reputation and influence.

The effectiveness of Australia's regime is limited by gaps in sectors and over-complexity.

Despite the regime providing a regulatory framework for industry and financial intelligence for AUSTRAC to support law enforcement and national security, there are flaws that limit the regime's effectiveness.

Firstly, there are a number of legislative inefficiencies throughout Australia's AML/CTF regime that limit the effectiveness of Australia's response to transnational crime at large. Industry and government stakeholders have repeatedly called for reforms to the six key obligations of the AML/CTF regime that are unnecessarily complex. A complex regime increases the regulatory burden on industry unnecessarily. This places businesses at greater risk of exploitation because they are not able to understand how to effectively harden their operations against exploitation and report suspicious activity. This leads to poor prevention practices and lowers the quality of financial intelligence for law enforcement.

Further, there are key gaps in the regulated population. As it stands, the regime does not extend to services internationally recognised as being at high risk of criminal exploitation, such as certain services provided by lawyers, accountants, real estate professionals, dealers in precious metals and precious stones, and trust and company service providers. Further, regulation on digital currency exchange providers, a key vector for illicit financing, has not kept pace with international standards. This leaves a variety of Australian businesses susceptible to unwittingly facilitating money laundering and terrorism financing.

While AUSTRAC guidance, industry education and outreach are undertaken in addition to use of exemptions, these are temporary solutions to systemic problems. Furthermore, while AUSTRAC can use enforcement to address the most significant breaches of the AML/CTF regime, powers can only be used on reporting entities with obligations to comply with the AML/CTF regime. Without legislative change, the AML/CTF regime will stagnate and ultimately become less effective and more wasteful over time, separate from the risk of serious economic and reputational consequences from any poor result in the FATF Mutual Evaluation. As the problems are legislative in nature, government intervention is required to effectively rectify these problems.

2.2 Options for reform

The proposed reforms have the following three objectives which are used to structure analysis of options:

1. Combatting crime through greater volume and quality of financial reporting by regulated entities to support actionable financial intelligence, and closing regulatory gaps that criminals can exploit
2. Strengthening FATF compliance
3. Minimising regulatory burden for the regulated population.

To address these three objectives, there are three proposed reform categories, which are outlined in the [Attorney-General's Department's second stage consultation paper](#). Each reform category and its associated improvements varies in its ability to address each of the three objectives. The three reform categories and their improvements to the AML/CTF regime are detailed below.

Category	Description	Improvement
1. Simplifying, clarifying and	Australia's AML/CTF regime can be unduly complex and poorly understood, leading to inadequate money-laundering and terrorism	The reforms would make the regime simpler and enable greater sharing of the regulatory burden between business groups. This will

Category	Description	Improvement
modernising the AML/CTF regime	financing prevention practices and lower quality financial intelligence This reform proposes to replace the prescriptive AML/CTF program and customer due diligence requirements with clear, outcomes-focused obligations. It will also facilitate appropriate information sharing and risk management.	ensure reporting entities can more easily understand and comply with their obligations under the regime. It would also improve the efficiency of data collection, and the ease of conducting investigations, to help ensure that investigators can work more efficiently to identify and prevent money laundering and counter terrorism financing.
2. Modernising digital currency and payments technology-related regulation	This reform would expand the range of digital currency-related services that are regulated and streamline the regulation of transfers of value across borders. It also includes approaches to improving and expanding the travel rule and simplifying reporting obligations on international funds transfer instructions (IFTIs).	This reform would capture additional digital currency services that are not currently regulated. This will increase the number of transactions regulated and therefore improve the overall coverage of the regime. This will help to increase the amount of intelligence captured under the regime and further enhance the effectiveness of the regime.
3. Addressing vulnerabilities in sectors providing certain high-risk services (tranche two sectors)	This reform would extend the AML/CTF regime to capture additional sectors providing certain high-risk services (i.e., lawyers, accountants and real estate professionals, trust and company service providers, and dealers in precious metals and precious).	This reform would increase the amount of intelligence captured and further enhance the effectiveness of the regime at discouraging money laundering and terrorism financing

The Attorney-General's Department is considering options which include different permutations of combining the available reform categories. This Impact Analysis considers four options for analysis, which were agreed in-principle with the Office of Impact Analysis:

- Option 1 | Maintain status quo** – Retain existing AML/CTF legislation and Rules
- Option 2 | Simplify and modernise regime** (Category 1 and 2)
- Option 3 | Expand regime to tranche two entities only** (Category 3)
- Option 4 | Modernise and simplify regime and expand to tranche two entities** (Category 1, 2 and 3).

Option 1 cannot be viewed as a 'no impact' option. Failure to act will likely result in additional negative impacts including:

- Enabling gaps and challenges for law enforcement that continue to create opportunities for criminals to exploit, increase our exposure to illicit finance, and consequences arising from crime harm, national security threats and lost tax revenue
- Reputational risks from falling further behind as FATF Standards continue to evolve and strengthen, creating negative perceptions of Australia for not acting to address critical deficiencies in its AML/CTF regime, and for businesses who may be vulnerable to exploitation
- Additional regulatory burden for businesses as complex obligations are less able to support emerging technology and changing business practices.

The benefit impacts of reform (Options 2 to 4) relate to avoiding the significant costs that would be incurred by maintaining the status quo (Option 1).

The reforms considered in this impact analysis will primarily assist in responding to recommendations with which Australia is non-compliant (22, 23, 28) or partially compliant (15, 16). The relevance of these options are presented in Table 11. Other FATF recommendations are excluded from this analysis where they are not within the scope of the reforms.

Table 11 | Relevance of reform options on in-scope FATF recommendations for which Australia is partially (PC) or non-compliant (NC)

FATF recommendation	FATF 2024 compliance	Option 2	Option 3	Option 4
15. New technologies	PC	Yes	No	Yes
16. Wire transfers	PC	Yes	No	Yes
22. Designated non-financial Businesses and Professions (DNFBPs): Customer due diligence	NC	No	Yes	Yes
23. DNFBPs: Other measures	NC	No	Yes	Yes
28. Regulation and supervision of DNFBPs	NC	No	Yes	Yes

3 Methodology

The Impact Analysis process involved an analysis of a range of viable options, including the proposed regulations, to assess the impact, including quantified and qualitative costs and benefits. A decision tool is then applied to determine the option that is expected to provide the overall highest net benefits (the preferred option). In the case of this assessment, the options have been assessed using multi-criteria analysis (MCA).

3.1 Number of regulated entities

3.1.1 Number of existing regulated entities

Category 1 and 2 reforms impact entities that are already regulated by AUSTRAC under the existing AML/CTF reforms. The total number of these regulated entities are separated by turnover size to allow the analysis to account for AML/CTF program complexity for larger businesses. The number of businesses in each cohort are presented in Table 12.

Table 12 | Number of existing regulated entities by turnover size

Industry	\$0 - \$200k	\$200k - \$2m	\$2m - \$10m	\$10m+	Total
Financial services	3,997	2,398	489	351	7,235
Bullion traders	98	84	29	34	245
Gambling services	1,281	1,904	967	434	4,586
Digital currency exchange providers	190	116	17	6	329
Remitters	2,505	1,539	229	76	4,349
Total	8,071	6,041	1,731	901	16,744 ¹²

3.1.2 Estimation of number of tranche two businesses

The total number of businesses that will be newly regulated due to the expansion of the AML/CTF regime is dependent on the proportion of the targeted industries that provide the proposed designated services.

To estimate the total number of businesses in the relevant industries, each industry is mapped to most relevant the Australian and New Zealand Standard Industrial Classification (ANZSIC) classes (see Table 13). ANZSIC classes are used by the ABS to group businesses into industries based on their predominant business activity. The total numbers of businesses per each industry have been estimated using ABS data on the number of businesses operating as of 30 June 2023.¹³ These estimates were adjusted by the average annual growth rate in business numbers for comparable industries to estimate the population for the 2025 financial year.

¹² The total number of reporting entities by industry was provided by AUSTRAC. For the purposes of this analysis, reporting entities that do not provide designated services, are not AML-regulated, or have not been classed to specific industries have been excluded.

¹³ Australian Bureau of Statistics. (2023). Counts of Australian Businesses, including Entries and Exits, July 2019 - June 2023. <https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/iul2019-jun2023>, accessed 02 July 2024

Table 13 | Tranche two industries by ANZSIC class

Industry	ANZSIC Code	ANZSIC Class	Primary activities
Legal services	6931	Legal Services	• Providing legal representation and advice • Conveyancing services
Accounting services	6932	Accounting Services	• Accounting and auditing services • Bookkeeping services • Tax agent services
Trust and company services	6419	Other Auxiliary Finance and Investment Services	• Nominee services • Portfolio, investment, management services • Trustee services
Real estate	6720	Real Estate Services	• Real estate agency services • Real estate auctioning services
	4253	Watch and Jewellery Retailing	• Retailing new watches and jewellery
Dealers in precious metals and stones	2591	Jewellery and Silverware Manufacturing	• Jewellery or silverware manufacturing using precious or semi-precious metal and stones
	3732	Jewellery and Watch Wholesaling	• Jewellery and watch wholesaling • Precious metal and gemstone wholesaling

Primary activities in some cases are broader than the designated services to be regulated. As not all businesses included in the ANZSIC classes will provide the proposed designated services (e.g. bookkeeping and tax agent services for accounting businesses), assumptions have been made as to the proportion of each sector that will be subject to the new regime (see Table 14). The proportions applied to each sector informed by expert advice by AUSTRAC, the actual proportions of businesses regulated by the New Zealand AML regime, and assumptions adopted in the cost-benefit of the New Zealand AML/CTF regime.¹⁴

The relatively low proportion applied to the 'Trust and company services' industry is due to the 'Other Auxiliary Finance and Investment Services' ANZSIC classification including many entities that are likely to be regulated under the existing regime. Similarly, the low proportion applied to the 'Dealers in precious metals and stones' industry is due to the ANZSIC classes covering all jewellery and watch manufacturers, wholesalers and retailers, many of which do not sell products that would constitute a designated service and since obligations would only apply to those who engage in transactions value at more than \$10,000.

¹⁴ New Zealand Ministry of Justice 2017, Cost Benefit Analysis: AML Phase 2, <https://www.justice.govt.nz/assets/cost-benefit-analysis-aml-phase-2.pdf>, accessed 02 June 2024

Table 14 | Estimated population of tranche two businesses

Industry	Total business population	Proportion of industry regulated ¹⁵	Total regulated population
Accounting services	36,314	75%	28,223
Legal services	23,517	70%	17,059
Trust and company services	45,235	15%	7,057
Real estate	44,227	80%	36,408
Dealers in precious metals and stones	5,279	15%	812
Total	154,572		89,557

3.2 Approach to measuring impacts

Due to the complex and inherently covert nature of money laundering, attempting to comprehensively quantify the scale of money laundering in Australia, and the effect of changes to the regime on this amount cannot be achieved for this impact analysis. Instead, four overarching types of impacts are assessed: Benefits of combatting crime, avoidance of a poor FATF Mutual Evaluation result, changes to regulatory burdens on the regulated population, the costs to government of operating the regime.

Impact analysis uses a mix of existing domestic and international academic literature, AUSTRAC financial intelligence data and data collected from reporting entities and tranche two entities on the time, effort and investment required to comply with regime obligations.

This section outlines the methodological approach to estimating these three types of impacts:

1. **Benefits of combatting crime and strengthening FATF compliance:** Qualitative and quantitative benefits to Australia with regard to combatting crime and avoiding a poor FATF Mutual Evaluation result.
2. **Changes in regulatory burdens to businesses and customers:** Analysis estimates the current and potential future effort of regulated entities to comply with regulatory obligations, and therefore the change in burden and transition costs. This includes the design and execution of various surveys with regulated and tranche two entities to understand impacts across reform categories, and extrapolation of results to model the impacts for the full regulated population, and for respective customers.
3. **Costs to government:** An estimate of the costs that will be incurred by AUSTRAC enacting and operating a reformed regime.

The analysis throughout this report has been conducted using a 10-year timeframe as a basis, beginning in FY25. Costs, benefits and changes in regulatory burden have been calculated in Net Present Value (NPV) terms in FY25 dollars, using a 7% discount rate in line with OIA recommendations. For presentation purposes, regulatory burdens per business are described in real terms to show the indicative cost that would be incurred in each year. Total regulatory burden was modelled as a NPV to allow more appropriate comparison of impacts that occur across different years.

¹⁵ AML/CTF regulation of the real estate industry relates only to businesses involved in the selling, purchasing or transferring of real property, and for dealers in precious metals and stones the regulations relates only to businesses accepting cash or digital currency payments equal to or above the \$10,000 threshold.

3.2.1 Benefits of combatting crime and strengthening FATF compliance

The proposed options to enhance the regime will have various direct and indirect benefits to the Australian Government, businesses and the wider Australian community regarding combatting crime and strengthening FATF compliance. Each option has therefore been assessed against the first two policy objectives of the proposed reforms.

These associated benefits are outlined according to the categories below.

1. Combatting crime – The extent to which each option would contribute to deterring, detecting, and disrupting transnational, serious and organised crime by improving compliance with AML/CTF laws and regulations, and greater financial intelligence assisting AUSTRAC and other law enforcement agencies. The proposed options have been assessed in terms of their ability to deliver benefits to firstly Government agencies, and secondly the community and businesses.

The benefits of AML/CTF regulatory reform to combatting crime in Australia are expected to be significant and broad. While all benefits would be shared among Australians, including businesses the community and varying levels of government, benefits are split between i) community and business and ii) government based on the direct pathway through which they would be first realised. It is important to note that such benefits to government will have indirect benefits to business and the community.

Benefits to business and the community: The proposed reforms will also deliver various benefits to the Australian business community as well as the broader community in the form of:

- Reduced criminal activity and the associated cost of crime by reducing criminals' ability to profit from and invest in criminal activities.
- Reduced inflation of certain goods, services or asset classes targeted by money laundering syndicates.
- Reduced harm from terrorism activity by disrupting terrorism financing and reducing the probability of a terrorist incident occurring; and reduced loss of tourism activity by promoting a safer international image for Australia.

Benefits to government: Implementation of the proposed reforms will improve and/or expand AML/CTF surveillance over the economy, providing law enforcement with higher quality intelligence to identify and respond to instances of money laundering and terrorism financing and tax avoidance. Utilisation of the improved intelligence provided under the reformed regime will provide benefits to Government agencies in the form of:

- Increased efficiency and effectiveness of investigations using AUSTRAC financial intelligence, leading to more cost-effective delivery of investigations and increasing the identification and confiscation of criminal assets under Proceeds of Crime legislation.
- Increased tax revenue by increasing the amount of unpaid tax liabilities identified and recovered.

2. FATF Compliance – The extent to which each option would address Australia's deficiencies against the relevant FATF Recommendations and contribute to strengthening its compliance with the global AML/CTF standards. These benefits will be assessed in terms of minimising the risk of Australia being 'grey-listed' by the FATF. Reforming Australia's AML/CTF regulations to become more compliant with the FATF regulations may benefit Australia in the form of:

- Avoided reputational damage to Australia that may occur in the event of a failure to implement adequate AML/CTF laws and regulations.
- Avoided reduction in foreign investment due to negative perceptions of increased money laundering and terrorism financing risk.

Due to the illicit nature of money laundering and terrorism financing, there is considerable uncertainty as to the scale of impacts of options on the community, making the calculation of the benefits of the reforms complex. The value of money laundering that occurs in Australia each year is extremely difficult to accurately measure, as is the relationship between money laundering and the costs to society of criminal

activities. For this reason, this impact analysis does not attempt to quantify the impact of the proposed reforms on the amount of money laundered in Australia. However, it does consider the effects of the reforms on crime and crime harm where possible.

Where possible, the benefits of the proposed reforms have been estimated using existing literature and consultation with AUSTRAC, AIC, ATO and AFP. Where benefits cannot be monetised but contribute significantly to the objectives of the reform, the benefits of the reforms have been contextualised in relation to key figures. This helps to contextualise the importance of these reforms to ensure Australia aligns with international best practice.

Estimating economic activity subject to regulation

To understand the scale of the increase in the amount of economic activity under surveillance under the Category 3 reforms, ABS' Input-Output Tables¹⁶ for detailed product items were used to estimate the total economic activity attributable to existing and proposed designated services. The ABS Input-Output Tables are a commonly used as a proxy for estimating economic activity by industry and product groups. For our analysis, final demand at purchasers' prices was used as a proxy for total economic activity as it more closely mirrors how money laundering permeates the economy, whereby illicit funds and assets are used to purchase and sell goods and services to disguise their origins.

As the AML/CTF regime regulates services rather than specific industries, the Input-Output Product Classification (IOPC) has been used as a proxy for designated services. The IOPC classifies goods and services into individual categories which are used in the input-output tables to estimate the production and subsequent use of each good and service. While the categories do not correspond exactly to the designated services regulated by the AML/CTF regime, they do provide broad indications as to the amount transacted across the regulated and tranche two industries (Refer to 'A.1.3 Estimation of economic activity under surveillance' for more detail).

Using the 2019-2020 final demand data,¹⁷ expanding the AML/CTF regime to tranche two entities would increase total economic activity under surveillance from 5.67% to 16.55%, representing a 192% increase.

3.2.2 Change in regulatory burden to businesses and customers

Survey of existing reporting entities and tranche two entities

Estimation of the current and future and therefore change in regulatory business and customer burden attributed to complying with AML/CTF regulation is estimated through the analysis of data collected by surveys of existing regulated entities and tranche two entities. The purpose, structure and data collected from the surveys is summarised in Table 15. This enabled estimation of the regulatory impost and savings of the reforms across different business cohorts, including industry and business size.

Table 15 | Summary of regulatory burden surveys

	Regulated entity surveys	Tranche two entity surveys
Purpose	To explore how the Category 1 and 2 reforms would increase or decrease the regulatory burden for existing regulated entities.	To explore the impact that extending the AML/CTF regulatory regime would have on tranche two entities.

¹⁶ <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables-product-details/2019-20>
¹⁷ 2019-2020 was the most recent ABS release to provide a breakdown of final demand by Input-Output Product Classification (IOPC). This classification was used to more accurately identify the designated services that may be subject to regulation under the proposed reforms.

Population	Businesses currently regulated under the existing regime, including financial services providers, casinos, digital currency exchanges, remitters and bullion dealers.	Businesses proposed to be added to the regulatory regime, including lawyers, accountants, real estate professionals, dealers in precious metals and precious stones, and trust and company service providers.
Structure	For each Category 1 and Category 2 reform, respondents were asked questions on their current level of burden, as well as level of upfront and change in ongoing cost that they expect will be necessary to understand and implement the reforms.	For each of the six key regulatory obligations (Enrolment, AML/CTF program, CDD, Ongoing CDD, Reporting, Record-keeping), respondents were asked to estimate the expected upfront and ongoing burden (above existing processes that would be leveraged) that they expect will be necessary to understand and implement each requirement as they are proposed to exist under the Category 1 and 2 reforms.
Questions	• Burden of complying with current AML/CTF obligations, including: • Staffing effort • Outsourced costs for external professional advice. • System operating and data storage costs. • Expected one-off burden (per above categories) required to update policies, processes and systems to comply with the revised obligations. • Expected ongoing burden (per above categories) to comply with the revised obligations. • Number of customer relationships involving the provision of designated services, including customer types, and their risk profiles.	• Burden of complying with existing obligations similar to those contained in the proposed AML/CTF regime, and the additional ongoing burden to meet new regulatory obligations, including: • Staffing effort • Outsourced costs for external professional advice. • System operating and data storage costs. • Expected one-off burden (per above categories) required to update policies, processes and/or systems to comply with the proposed new AML/CTF obligations. • Number of customer relationships involving the provision of the proposed designated services, including customer types, and their risk profiles.

Engagement of AML service providers

Nous undertook targeted consultations with businesses providing AML/CTF services to supplement findings from the survey and understand the costs of outsourcing AML/CTF obligations and any potential impacts of the proposed reforms to the delivery of these services.

During interviews Nous asked service providers questions focusing on:

- the variety of AML/CTF services they offered
- the profile of the clients that they offered services to, including the types of businesses and the sectors in which they operated
- the approximate fees charged for AML/CTF services and how these prices were determined, including whether the pricing was influenced by client characteristics such as size, structure and sector.
- other factors that would influence the implementation of the reforms.

Discussions helped to understand the likely costs different businesses would face if they were to outsource specific components of their AML/CTF obligations as well as other factors that would influence the implementation of the reforms. The data gathered was used as a secondary point of verification for estimates of outsourcing cost provided by survey respondents.

Quantification of estimated change in regulatory burden to business cohort

To estimate the change in regulatory burden for all impacted businesses, the average change in regulatory burden per business was estimated and then multiplied by the number of businesses impacted by the proposed reforms.

This estimation of burden per business and multiplication was conducted by business cohort (on the basis of industry and business turnover groupings). These industries are listed in Section 3.1, and the business turnover ranges are discussed in Appendix B.6.1. That is, the change in regulatory burden has been estimated for each of the distinct business turnover sizes within each industry and then summated to get the total regulatory burden estimate.



A current state cost, future state cost and upfront transition cost methodology was used to estimate the average change in regulatory burden per business across both regulated and tranche two industries. This allowed the estimation of the upfront transition cost and change in ongoing compliance costs.

As noted above, estimates of regulatory burden per business were conducted for every business cohort. This means that for each industry and business size cohort, the current state, future state and upfront transition costs were estimated.



The **current state** refers to the cost experienced by industry while operating under their existing regulatory requirements. These requirements vary by industry and business type. Some tranche two industries already operate under regulatory frameworks with similar requirements to those of the AML/CTF regime and this is considered in current state analysis.

- For regulated entities, this includes the costs of complying with the existing regime's requirements across the AML/CTF areas for reforms identified in Category 1 and 2. An example is the cost of time spent conducting initial customer due diligence for new customers under the existing requirements.
- For tranche two entities, this includes the costs they already experience under their existing business processes (required by other legislation in some cases). An example is the cost of time spent updating customer contact details due to a change in customer circumstances.

The **future state** refers to the cost expected to be experienced by industry when operating under the proposed reforms. The proposed reforms would have different impacts on businesses in different industries and with different customer types.

- For regulated entities, this includes the costs of complying with the proposed regime's requirements across the AML/CTF areas for reforms identified in Category 1 and 2. An example is the change in time spent conducting enhanced customer due diligence for new customers under the proposed reforms.
- For tranche two entities, this includes the costs of complying with the proposed regime's requirements across the AML/CTF legislation. These requirements vary between Option 3 and Option 4. An example is the cost of time spent updating customer risk ratings, as part of ongoing customer due diligence requirements, due to a change in customer circumstances.

The **upfront transition** cost refers to the costs required to design or update business processes and systems to comply with the proposed reforms. The costs associated with updating processes vary by business size and industry.

- For regulated entities, this includes the expected costs of updating their AML/CTF programs and processes to align with the AML/CTF areas for reforms identified in Category 1 and 2. An example is

the external cost spent on lawyers to understand how the reforms impact their existing enhanced customer due diligence process and what updates they need to make to comply.

- For tranche two entities, this includes the expected costs of developing AML/CTF programs and processes to align with the regime's requirements across the AML/CTF legislation. These requirements vary between reform Option 3 and Option 4. An example is the expected cost of external advice to understand their business requirements for ongoing customer due diligence under the AML/CTF regime and the updates they must make to their existing processes and procedures.

The estimated current state cost, future state cost and upfront transition cost vary by business industry and size. This is because larger businesses can have larger and more diverse customer bases and therefore require more complex AML/CTF programs. Similarly, designated services only make up a small proportion of customer interactions for some industries while other industries have their entire business captured under the designated services of the AML/CTF regime. This changes the required complexity of their AML/CTF programs and processes, and therefore results in the estimation approach considering differences in the average change in regulatory burden faced per business disaggregated by industry and business size.

Each category of reform has specific reform areas. Each of these reform areas has specific impacts that will bear specific cost (or cost savings) on business. Not all businesses are impacted by every reform area and impact. These reform areas are presented in Table 16 along with their impacts and cost considerations. The costs considered include:

- **Staffing costs** for designing and implementing AML/CTF programs and reforms.
- **External support costs**, such as lawyers and AML/CTF service providers, for designing and implementing AML/CTF programs and reforms.
- **System and storage costs** for designing and upgrading systems to hold and manage data required for AML/CTF program requirements.

The estimation process involved several layers of data validation and tests for consistency. Specifically, this involved:

- Cross-checking of survey results across industries and business sizes to ensure consistency
- Identification and removal of survey output outliers where they were not plausible or consistent for business sizes
- Assessing tranche two entity survey costs against the current state costs of regulated entities to ensure reasonable comparison
- Use of service provider cost data to test the reasonableness of survey outputs for outsourcing costs.

Table 16 | Overview of reform areas, impact and costs/savings by category of reforms.

Category	Reform area	Impact	Costs considered
Category 1	Streamlining Parts A and B	• Understanding obligations under the new AML/CTF obligations	• Staffing costs • External support
Category 1	Updates to AML/CTF risk assessment and Compliance Officer requirements	• Document a risk assessment • Reviewing and updating a risk assessment • Conducting independent reviews • AML/CTF Compliance Officer reporting requirements • Update the AML/CTF Program to mitigate and manage material proliferation financing risk	• Staffing costs • External support

Category	Reform area	Impact	Costs considered
Category 1	Group risk management, information sharing, and the Tipping Off offence	- Complying with information sharing and Tipping Off offence provisions - Implementing controls and protections around SMR and section 49 notice related disclosures - Updating AML/CTF program to comply with group risk management requirements	- Staffing costs - External support
Category 1	Customer risk rating and initial CDD	- Understanding the customer risk rating and initial CDD obligations - Customer risk rating and initial CDD - Update or create the customer risk rating process	- Staffing costs - External support
Category 1	Changes to CDD	- Changes to ongoing CDD - Changes to transaction monitoring - Changes to enhanced CDD - Changes to simplified CDD	- Staffing costs - External support - Systems and storage
Category 1	Decreases to the gambling threshold for CDD reporting	Changes to CDD reporting thresholds for gambling services	- Staffing costs - Systems and storage
Category 1	Repeal of the Financial Transaction Reports (FTR) Act	Removal of reporting requirements for cash dealer businesses under the Financial Transaction Reports (FTR) Act	Staffing costs
Category 2	Expand range of digital currency-related services regulated	- Extending the AML/CTF program to the additional digital currency-related services - Complying with the regulatory requirements for value-transfer services	- Staffing costs - External support - Systems and storage
Category 2	Updates to the travel rule	- Complying with the travel rule requirements - Facilitate the sending and receiving of travel rule information - Updates to foreign counterparty due diligence - Complying with the Travel Rule requirements for nested services	- Staffing costs - External support - Systems and storage
Category 2	Simplify reporting obligations for IFTIs	Completing IFTI reports	- Staffing costs - Systems and storage
Category 2	Streamline the framework for regulating transfers of value across borders	Reporting for BNIs	Staffing costs
Category 3	Enrolment	Enrolling with AUSTRAC	Staffing costs
Category 3	AML/CTF Program	- Developing and maintaining an AML/CTF Program - Developing a risk assessment process - AML/CTF Compliance Officer reporting	- Staffing costs - External support

Category	Reform area	Impact	Costs considered
		- Updating the employee due diligence program - Designing and running an AML/CTF training program - Reviews of the AML/CTF program	
Category 3	Customer Due Diligence	- Understanding customer risk - Initial CDD - Ongoing CDD - Enhanced CDD - Simplified CDD	- Staffing costs - External support - Systems and storage
Category 3	Reporting	Reporting for TTRs and SMRs	- Staffing costs - Systems and storage
Category 3	Record-keeping	Record-keeping	- Staffing costs - External support - Systems and storage

As the repealing of the Financial Transaction Reports (FTR) Act will only impact Motor Vehicle Dealers, the change in burden has been estimated separately to the other Category 1 reforms. To estimate this impact, the average number of FTR Act reports submitted each year for the past seven years was calculated using data provided by AUSTRAC. Due to the similarity between FTR Reports and Transaction Threshold Reports (TTRs), the expected amount of time taken to complete a TTR per the survey of tranche two entities was used as a proxy to estimate the amount of time taken to complete each report. The cost of effort was calculated using OIA's default work-related labour rate of \$85.17 per hour¹⁸.

Category 3 reforms also require two separate estimation methods because of the interaction these reforms have with Category 1 and 2 in the policy options. Option 3 involves regulating tranche two entities under the existing regulatory regime. Option 4 proposes regulating tranche two entities under the proposed regime including the reforms in Category 1 and 2.

To estimate the regulatory burdens, tranche two entities provided estimates, via survey, of their likely costs relating to Category 3 reforms under the proposed regime that includes the Category 1 and 2 reform. These costs estimates are explained in more detail in Appendix B. This enabled the estimation of the regulatory burden for Category 3 under Option 4 (Category 1,2 and 3 reforms).

To estimate the regulatory burden under Option 3 (Category 3 reforms only), current and future state ongoing cost scaling factors were estimated based on the difference in current and future state costs for reform areas for existing regulated entities. These cost scaling factors are used to scale the costs for tranche two entities and their customers under both regimes. This allowed the ongoing costs under Category 3 reforms to be estimated for Reform Option 3 (Category 3 reforms only), without requiring further input from tranche two entities. This approach is described in detail in Appendix B.8.

Quantification of estimated change in regulatory burden for entity customers

The regulatory burden for customers of regulated and tranche two entities concerns the cost of effort required to complete Customer Due Diligence procedures. The change in regulatory burden for customers was calculated as the change in the total number of customers required to complete CDD processes

¹⁸ Office of Impact Analysis (2024), *Regulatory Burden Measurement Framework*, <https://oia.pmc.gov.au/sites/default/files/2024-02/regulatory-burden-measurement-framework.pdf>, accessed 05 July 2024

multiplied by the cost of effort for each customer. As the nature of CDD processes require one-off effort by a customer each time they are onboarded, the regulatory burden was calculated as an ongoing cost based on the number of new customers onboarded each year by businesses.

$$\text{Change in customer regulatory burden} = \text{Change in customers completing CDD} \times \text{Cost of effort for customers completing CDD}$$

3.2.3 Costs to government

The costs to government of implementing the proposed reforms was determined by estimating the expected additional staffing and resources required for AUSTRAC to administer the reformed regime under each option. This includes the ongoing cost to monitor and enforce the regime for additional businesses regulated due to the proposed reforms. Under the Category 3 reforms (Options 3 and 4), this will entail a significant expansion of AUSTRAC's regulatory functions as it becomes responsible for a larger regulated population. Costs estimates were developed by AUSTRAC for use in this analysis.

3.3 Methodology for assessing options

MCA is chosen as the appropriate tool for assessing the options, as it is difficult to fully quantify (and monetise) the benefits of the proposed regulatory framework. This is due to a lack of available data on the causal impact of AML/CTF regulatory changes on criminal activity.

MCA is a decision tool that is appropriate for this assessment because it:

- aligns with the problem statement and description of reform objectives
- provides a transparent assessment of how each option performs against each of the reform objectives
- utilises the quantified costs of each option to score the cost criteria against which to compare the benefit criteria scoring
- avoids the risk of false precision that would occur if broad assumptions were applied to monetise the benefits without sufficient and relevant data.

MCA allows a decision to be made based on the weighted scores of options for each criterion. The option assigned the highest weighted score is the 'preferred option'. MCA provides a structured, systematic, and transparent framework for comparing options across criteria (aligned to reform objectives) which are measured or considered in various ways.

The assessment of each option against each criterion is scored using a scale from -10 to +10 relative to Option 1 (no reform to the regime, which carries its own impacts described earlier). A score of zero represents no change in impacts against a criterion for that option compared to Option 1. A positive score represents a benefit (or a lower cost) relative to Option 1 and a negative score represents an increased cost (or reduction in a benefit) relative to Option 1.

For each specific impact relating to a criterion, the 'relevance' of the option is considered for that impact prior to assigning a MCA score. This is applied where there are multiple impacts assessed per criterion, and where a financially quantified benefit of reform cannot be differentiated for each option. Relevance is considered based on the categories Low, Low to Medium, Medium, Medium to High, and High, where High is the assessment indicating greatest relevance.

The assessment criteria align with the policy objectives of the proposed reforms. The relative weights of the criteria are set to reflect the relative importance and magnitude of the expected impacts of each criterion. The criteria for impacts of combatting crime and strengthening FATF compliance are assigned a total weighting of 50%, with the regulatory burden and cost to government criteria also having a total weighting of 50%. The criteria and weightings are provided in Table 17.

Table 17 | MCA criteria and weighting

Criteria group	Report section	Criteria	Weighting
Combatting crime	Section 4	Community and business benefits (reduced criminal activity; reduced inflation for prices of goods and services targeted by money syndicates; reduced loss of life from terrorism activity; reduced loss of tourism activity through safer international image)	20%
		Government benefits (increased tax revenue through greater recovery of unpaid tax; increased investigation effectiveness and greater asset seizures)	15%
Strengthening FATF compliance	Section 5	Avoidance of grey listing	15%
Regulatory burden	Section 6	Change in regulated business burden	40%
		Change in customer burden (of regulated businesses)	5%
Cost to government	Section 7	Change in government cost	5%

The combination of scores and weightings provides a weighted score, which, when summed for each option, provides a basis for ranking options and choosing a preferred option.

3.4 Limitations of analysis

The analysis conducted for this report includes several limitations:

- There are several important assumptions that have been made as a basis for the calculations with regards the quantifiable costs and benefits. These assumptions are set out in the methodology and Appendix B. Changes to key assumptions may impact the costs and benefits.
- Nous has indicated the sources of the information, but has not sought to independently verify those sources unless otherwise noted.
- Robust estimates of the number of tranche two entities that would be regulated are not possible as this requires granular data on service delivery by all relevant businesses. This was a particular challenge for trust and company service provider entities. However, this data is not available. Proportions of total businesses in these industries that would be regulated are informed by the experience of the New Zealand regime and by expert advice.
- Lack of understanding of businesses of the operational details of the reforms, which still remained subject to consultation at the time the surveys were conducted. This is emphasised for tranche two entities who were less familiar with AML/CTF regulatory obligations. Across all industry engagement conducted, businesses noted that their estimations of compliance efforts and costs were not final and could not be until further detail is provided on the reforms. Estimates of regulatory burden therefore reflect the best efforts and understanding of the affected stakeholders over a limited engagement timeframe.
- A lack of strong and definitive evidence in the Australian context of the likely impact of money laundering and these reforms on the total amount of money laundered per year.
- The analysis of benefits and regulatory burden assumes that there is no structural shift in the risk of money laundering and terrorism activity in Australia. A structural shift may alter the estimated benefits and the ongoing regulatory burden due to increased risk ratings across the entire economy.

4 Benefits of combatting crime

The benefits of AML/CTF regulatory reform to combatting crime in Australia are significant and broad. While all benefits would be shared among Australians, including businesses the community and varying levels of government, benefits are split between i) community and business and ii) government based on the direct pathway through which they would be first realised.

4.1 Community and Business benefits

4.1.1 Reducing criminal activity

Money laundering allows individuals and criminal organisations to profit from their crimes. By disguising the origin of the proceeds of crime by integrating them into legitimate transactions, criminals can spend their criminal proceeds in the legitimate economy without being detected. If the funds were spent in the legitimate economy without the money laundering process, law enforcement could more easily identify the funds as being unexplained wealth and derived from an illicit source. When money laundering is made more difficult to complete, it reduces the incentive to conduct criminal activity.

Reducing the effectiveness of money laundering techniques and increasing the effectiveness of money laundering investigations and prosecutions should work to reduce the incentive for committing certain types of crime. This should reduce the overall level of crime committed, and therefore reduce the cost of crime across the economy.

It is estimated that serious and organised crime cost the Australian economy a total of \$60.1 billion in the 2020-21 financial year¹⁹. This comprises \$16.4 billion in prevention and response costs and \$43.7 billion for the cost of criminal activity and serious and organized crime. Of the latter amount, \$22.1 billion is the total cost of illicit drugs procured on the market and organized fraud.

The other \$21.6 billion²⁰ is indirect costs associated with crime and comprises:

- **Illicit drug activity** (\$4.5 billion) | The cost of medical treatment for drug related incidents (\$894 million) and the lost economic output of drug users while in treatment or due to death (\$3.7 billion).
- **Illicit commodities** (\$4.9 billion) | The cost of intellectual property crime (\$3.2 billion), environmental crime (\$637 million) and illicit tobacco crime (\$1 billion).
- **Consequences of serious and organised crime** (\$6.4 billion) | The costs related to conventional crimes committed as a consequence of serious and organised crimes, such as violence, burglaries and sexual assaults.
- **Cybercrime** (\$3.5 billion) | The cost associated with lost wealth due to cybercrime targeting individuals (\$3 billion), businesses (\$396 million) and government (\$37.5 million).
- **Crime enablers** (\$2.3 billion) | The costs associated with serious and organised crime enablers including identity crime (\$1.3 billion), laundering commission (\$830 million), corruption (\$90 million) and violence (\$0.5 million).
- **Crimes against the person** (\$673 million) | The cost of human trafficking and modern slavery (\$111 million) and child sexual abuse (\$561 million).

¹⁹ R. Smith & A. Hickman, *Estimating the costs of serious and organised crime in Australia, 2020–21*, Australian Institute of Criminology, 2022.

²⁰ As above. Note: Organised tax fraud is excluded as this is discussed in more detail in Section 4.2 to avoid overcounting.

These costs of crime relate only to those enabled or associated with organised criminal activity. The true total cost of crime is likely much greater, as many crimes are committed outside of the remit of organised crime organisations.

Due to the complex and inherently covert nature of money laundering, it is not possible to estimate the full effect of AML/CTF reform on the money laundering and the cost of serious and organised crime. This impact analysis uses a mix of existing domestic and international academic literature and Australian Government financial crime data to quantify the impacts of two benefits relating to combatting crime:

- Reduction in illicit drug harm
- Reduced crime harm associated with avoided re-investment of criminal proceeds due to crime confiscations.

Reduction in illicit drug harm

Of the costs of crime outlined above, money laundering is a significant enabler of illicit drug activity and its resultant damage to the community. The amount of money laundered domestically within Australia each year has been estimated to be between approximately \$45 billion and \$60 billion²¹. Internal analysis conducted by the AIC of AIC and AUSTRAC data estimated that of the money laundered, \$935.5 million (~2%) was related to illicit drug activity. Additional AIC analysis on the characteristics of approximately 600 organised crime groups involved in illicit drug trafficking found that 49.7 percent of the groups were involved in money laundering, and that 9 percent of the groups only laundered proceeds of crime through the real estate industry or other professional facilitators of money laundering²².

The laundering of proceeds of crime amplifies the harm that illicit drug activity has on the community. AIC analysis of AUSTRAC and AIC data found that an increase in money laundering by an organised crime group preceded an increase in crime harm due to the reinvestment of illicit funds in future criminal activities. It was estimated that each individual group involved in reinvesting their criminal proceeds was on average responsible for \$5.18m of illicit drug harm each year (\$5.3m in FY24). Conversely, the analysis found that reducing money laundering by organised crime groups involved in illicit drug activity had the potential to significantly reduce the associated harm to the community. The analysis determined the proportional reduction in illicit drug harm that would occur under two scenarios where organized crime groups were restricted from laundering their proceeds of crime:

- A 33% reduction when a group is prevented from laundering any money
- A 3.3% reduction when a group continues to launder money but the amount of money laundered is reduced by 50%²³.

By preventing money laundering techniques in high-risk industries such as real estate, AML/CTF reform can reduce illicit drug harm.

Reduced crime harm associated with avoided re-investment of criminal proceeds due to crime confiscations

In addition to deterring criminals from committing crimes, AML/CTF regulations can further reduce the cost of crime to the community by supporting law enforcement to identify and restrain the proceeds and instruments of crime (refer to Section 4.2.1). Removing criminals' access to the proceeds of their illicit activities removes their ability to reinvest them into future criminal activities. This has the impact of reducing crime, particularly for serious and organised crime that requires greater levels of investment.

²¹ Joras Ferwerda, Alexander van Saase, Brigitte Unger and Michael Getzner, 'Estimating money laundering flows with a gravity model-based simulation' (2020) 10(18552) Scientific Reports, 6. Note, AUD figures have been calculated using Australia's nominal GDP as at 31 Dec 2023. <<https://www.nature.com/articles/s41598-020-75653-x>>.

²² Morgan A & Dowling C 2023. Enablers of illicit drug trafficking by organised crime groups. Trends & issues in crime and criminal justice no. 665. Canberra: Australian Institute of Criminology.

²³ Inferred from Morgan (2024) Money laundering and the harm from organised crime: Results from a data linkage study. Report by the Australian Institute of Criminology's Serious and Organised Crime Research Laboratory for the Australian Transaction Reports and Analysis Centre

A study conducted in the Netherlands and reported by the United Nations Office of Drugs and Crime²⁴ found that criminals tend to reinvest 36% of their income on criminal activities or 'irregular business' activities. Proceeds of crime reinvested into further criminal activities will have a multiplier effect on crime as a portion of the profits from the reinvested proceeds of crime will also be reinvested into future criminal activities. Research in 2006 estimated the multiplier lies between 1.0 and 3.0 with a likely range of 1.1-1.25 based on assumptions of the profitability of crime in the Netherlands, indicating that money laundering by criminals leads to 10-25% more proceeds of crime in the future by funding additional illegal activities²⁵.

The size of the multiplier effect is dependent on the profitability of the criminal act in question, with proceeds of crime reinvested in more profitable activities such as drug trafficking having a significantly larger multiplier. The Proceeds of Crime Drug Disruption Index (POCDDI) estimates based on Australian data that a reduction in criminal funds due to proceeds of crime action will have a medium-term (6-months) multiplier of 4.6 for funds set to be reinvested in any stage of the drug trafficking supply chain, with the multiplier increasing to 11.9 for funds reinvested in the more profitable activities of distribution, importation or production of illicit drugs²⁶. The POCDDI also found that 26% of proceeds of crime confiscations made by the AFP were from drug-related crimes.

As it is not possible to determine what criminal activities any confiscated proceeds of crime would otherwise be invested in, this analysis assumes that on average, proceeds of crime confiscated would have been reinvested in the same criminal activities from which they were confiscated. Under this assumption, a weighted average of the above noted multipliers was calculated according to the proportion of confiscations attributable to each type of crime identified by the POCDDI. The POCDDI range of multipliers for drug crimes (4.6 – 11.9) was used for the drug-related proceeds of crime, while the range developed by Unger et al. (2006) (1.1 – 1.25) was used for confiscations attributable to other types of crimes. This yields a lower and upper bound estimate of the proceeds of crime multiplier of 2.0 and 4.0, respectively.

Options analysis

Option 2 | Simplify regime

The proposed Category 1 and 2 reforms will primarily support a reduction in criminal activity by improving compliance with the existing AML/CTF regime, subjecting existing regulated services that are frequently used to launder proceeds of crime to greater surveillance, and improving the quality of intelligence provided by regulated entities that can be used to identify criminal activities and money laundering. Option 2 would also modernise the regime through expanding the range of digital currency-related services regulated under the regime, which would provide law enforcement agencies with greater surveillance and intelligence of the digital currency sector. While these benefits may be substantial, there is insufficient data to estimate the scale of the impact that this would have in reducing criminal activities. Option 2 receives a relevance score of Low to Medium.

Option 3 | Expand regime

The Option 3 reforms will support a reduction in criminal activity by expanding the proportion of total economic activity monitored under the AML/CTF regime. This will have a deterrent effect on criminal activity as making money laundering more difficult to conduct will increase the cost of money laundering for criminals, reducing the incentive to engage in criminal activities for profit. In addition, the increased monitoring will increase the likelihood that criminals' assets are identified and confiscated, providing a further deterrent effect on engaging in criminal activities for profit, as the reward criminals expect to achieve will become more difficult to realise.

While the deterrence effect of AML reform may have a significant impact on the occurrence of crime, the scale of this impact cannot be accurately quantified based on available data and literature. However,

²⁴ United Nations Office on Drugs and Crime (2011), Estimating Illicit Financial Flows Resulting From Drug Trafficking and Other Transnational Organised Crimes, Research Report, October, 1–138.

²⁵ Unger, B., et al, 2006. The amounts and the effects of money laundering. Report for the Ministry of Finance, 16(2020.08), p.22.

²⁶ McFadden, Michael, Martin O'Flaherty, Paul Boreham, and Michele Haynes. Targeting the profits of illicit drug trafficking through proceeds of crime action. National Drug Law Enforcement Research Fund (NDLERF), 2014.

internal analysis conducted by the AIC provides an estimate of the amount of illicit drug harm to the community that could be reduced by restricting money laundering through tranche two sectors. Per the analysis, it was estimated that:

- 1,689 serious and organised groups involved in illicit drug trafficking were involved in laundering the proceeds of crime
- 9% percent of organised crime groups involved in illicit drug activity only laundered proceeds of crime through tranche two industries
- Each individual group was responsible for \$5.18m of illicit drug harm each year (\$5.3m in FY24).
- A 33% reduction in illicit drug harm is achieved when a criminal group is prevented from laundering any money
- A 3.3% reduction in illicit drug harm is achieved when the money laundered by a criminal group is reduced by 50%

By expanding the AML/CTF regime to tranche two entities, criminal groups engaged in laundering through these industries are likely to either reduce their money laundering activity or cease money laundering entirely. Using the inputs above, three indicative scenarios of the proportion of organised crime groups expected to reduce their money laundering activity were considered in Table 18. These scenarios were adapted from findings of AIC research on money laundering through already regulated sectors to illustrate the potential impact that a reduction in money laundering by organised crime groups may have if the reforms are effective in reducing laundering through tranche two sectors. The impact that the reforms may have on money laundering through tranche two sectors is not known, and therefore the likelihood of any scenario occurring is not known. Under the low scenario, it is estimated that around \$200m of illicit drug harm could be avoided if, under the Category 3 reforms, 10% of the organised crime groups that launder their proceeds of crime only through tranche two sectors were to cease money laundering entirely, and a further 15% reduced their money laundering by half. The avoided harm will increase substantially if higher proportions of groups are constrained in their money laundering due to the expansion of the regime, with a high estimate of \$401m achieved if 20% of the relevant groups cease money laundering entirely and a further 30% reduce their money laundering by half.

Table 18 | Reduction in illicit drug harm by preventing money laundering in tranche two sectors

Scenario	% of crime groups reduced ML by half	% of crime groups that ceased ML	Annual reduction in harm (\$m)	Ten-year impact (\$m NPV)
Low	15%	10%	30.8	200
Medium	25%	15%	46.8	305
High	30%	20%	61.5	401

In addition to the deterrence effect, the expansion of the AML/CTF regime should support a reduction in criminal activities by increasing the identification and confiscation of proceeds of crime and other criminal assets and funds to prevent their reinvestment in further criminal activities. Per to Section 4.2.1, the extension of the AML/CTF regime to tranche two entities would increase total economic activity under surveillance by approximately 192%, and potentially a total of \$76.1m per year in additional asset confiscations. The removal of the assets from the possession of criminals or their networks should have the immediate effect of preventing their reinvestment in further criminal activities. Using the estimates for the multiplier effect of proceeds of crime listed above (2 to 4), the impact of this increase in asset confiscations is estimated to reduce investment in criminal activities by between \$152m and \$304m each

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under the Freedom of Information Act 1982

year (a mid-point of \$228m each year), noting that this would be in addition to the value of the criminal assets confiscated.

Option 3 receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Implementing the Category 1, 2 and 3 reforms together will have the combined impact of both Option 2 and Option 3 detailed above, with the additional benefit of improved compliance by tranche two entities due to the reforms to simplify the AML/CTF program and CDD requirements. In addition, the reforms to information sharing and group risk management will support improved intelligence gathering by tranche two entities that operate in a group, which will support better investigation of money laundering. This will likely increase the identification and confiscation of criminal assets (see refer to Section 4.2.1), further reducing the reinvestment in criminal activities by criminals and their networks. Option 4 receives a relevance score of High.

Table 19 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Reducing criminal activity	Low to Medium	Medium to High	High

4.1.2 Avoided inflation for prices of goods and services targeted by money syndicates

One process for money laundering is using illegal funds to purchase assets and then use the sale of the assets to legitimise the funds and incorporate them into the financial system. When criminals engage in this form of money laundering, they often have very little care for the price of the asset, as the asset is often used purely as a vehicle for the money laundering to occur. This practice can inflate the cost of the asset above what would normally be the case.²⁷

This form of money laundering is often used with assets experiencing high growth in value. This is because large increases in the price of the asset allow more money to be laundered and makes it less suspicious for large sums of money to transfer hands. This helps to disguise money laundering as legitimate purchases and investments.

One example of an asset class that fits this description in Australia is real estate.²⁸ The industry is noted as 'very high risk' by AUSTRAC²⁹. Real estate has proven to be a popular destination for money laundering in Australia over many years, with analysis in 2007 estimating that 23% of laundered money was invested in real estate.³⁰ Furthermore, the AIC has demonstrated that eight percent of illicit drug trafficking groups in Australia were involved in money laundering through the real estate industry³¹. This distortion of the market can add additional inflationary pressure to the housing market as criminals pay above market value for properties due to their primary concern being the legitimization of their laundered funds. Research in British Columbia in 2019 cautiously estimated that money laundering in real estate transactions in the province was increasing house prices by up to approximately five per cent³².

²⁷ Walker J 1995. Estimates of the extent of money laundering in and through Australia. John Walker Consulting Services.

²⁸ This has also occurred in other international jurisdictions, such as London.

²⁹ AUSTRAC (2024). Money Laundering in Australia – National Risk Assessment.

³⁰ Stamp, J. and Walker, J., 2007. Money laundering in and through Australia, 2004. Australian Institute of Criminology

³¹ Morgan A & Dowling C 2023. Enablers of illicit drug trafficking by organised crime groups. Trends & issues in crime and criminal justice no. 665. Canberra: Australian Institute of Criminology.

³² Maloney, M. (2019). Combatting Money Laundering in BC Real Estate: Expert Panel on Money Laundering in BC Real Estate. International Centre for Criminal Law Reform and Criminal Justice Policy.

This can lead to further crowding out of law-abiding citizens struggling to afford housing. It should be noted that money laundering is one of many factors influencing house prices in Australia. Existing research into the impact of money laundering on real estate prices in Australia is currently limited, and among other economic factors contributing to changes in house prices, it is incredibly complex to quantify any inflationary impact related to money laundering.

Options analysis

Option 2 | Simplify regime

The proposed category 1 reforms may support a reduction in price inflation due to money laundering by improving the quality of intelligence provided by regulated entities, which can be used by law enforcement agencies to target money launderers' funds and assets. Reducing the ability of criminals to launder their money would minimise the total value of illicit funds being laundered, which may limit any inflationary pressure occurring as a result.

As the Category 2 reforms primarily target digital currency services (a high-risk sector according to AUSTRAC's national risk assessment), they may support a reduction in asset price inflation by providing financial intelligence that reduces money laundering across the economy. However, it is less clear whether targeting money laundering conducted using digital currencies will reduce money laundering through any specific asset class or sector that is at risk of inflation.

This option therefore receives a relevance score of Low.

Option 3 | Expand regime

Extending the reach of the AML/CTF regime to tranche two sectors will help to increase the confiscation of laundered assets and funds and deter further criminal activities and associated money laundering. Reducing money laundering across the economy may reduce inflationary pressure on specific asset classes impacted by money laundering. This reduction is likely to be greater for assets traded in the tranche two sectors such as real estate, where increased monitoring and oversight is likely to deter money laundering activity to a greater extent than for assets traded under less scrutiny. This may result in asset price inflation occurring for assets traded in other less regulated sectors as money laundering flows to where it is least likely to be detected, however there is insufficient information to predict these flows. Option 3 receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Implementing the Category 1,2 and 3 reforms together will have the combined impact of both Option 2 and Option 3 detailed above, with the additional benefit of improved compliance by tranche two entities due to the reforms to simplify the AML/CTF program and CDD requirements. The benefits of stronger compliance with the AML/CTF regime by tranche two entities may be significant as it may further restrict money laundering flows through the real estate sector than would otherwise be achievable under Option 3. Supporting the real estate industry to enforce their AML/CTF programs and CDD requirements would reduce the industry's appeal as a destination for illicit money and minimize any potential inflation to property prices as a result. Option 4 receives a relevance score of High.

Table 20 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Reduced inflation	Low	Medium to High	High

4.1.3 Reduced harm from terrorism activity

Currently in Australia, the financial intelligence collected through the AML/CTF requirements is used for surveillance as well as corroborating other intelligence to help identify networks and associations involved in terrorist activity. The information collected from payment platforms and high-risk transactions can identify networks and associations, as well as be used in conjunction with models that assess patterns of behaviour. This can be used to monitor potential terrorist networks and disrupt attempts to provide financing; as well as identify changes in patterns of behaviour that may be relevant to the intention to plan a terror attack. This aids authorities in preventing the funding of terrorist activities and reducing the potential harm they could cause.

A particular area of focus in recent years has been the use of cryptocurrencies to finance terrorist organisations or affiliates overseas³³. The relative anonymity of cryptocurrency transactions provides an opportunity to fund global terrorist networks carrying out attacks overseas without the use of more complex methods. This could allow networks or individuals in Australia to fund terrorist activities directly with fewer barriers than they have previously faced. Expanding oversight over digital currency transactions could identify transactions and prevent terrorism financing from reaching its intended destination, whilst also deterring networks or individuals from engaging in terrorism financing due to a greater likelihood of being caught.

Terrorist attacks can cause loss of life, although the level will vary depending on the nature of the attack and the characteristics of the area where the attack happens. Terrorist attacks also cause additional harm beyond the direct loss of life in the form of physical injury and psychological harm to community members impacted by the attacks. However, again this impact can vary considerably and cannot be meaningfully estimated. In addition, the occurrence of such attacks can lead to significant damage to a nation's tourism sector. Tourism is usually one of the main industries impacted negatively by terrorism, as international tourists can be cautious of visiting regions where there has been high terrorism activity in recent years³⁴. This can have a substantial impact on a country's international tourist numbers and therefore exports.

However, this impact also cannot be meaningfully estimated. While expanding the regime may support a reduction in harm associated with terrorist attacks due to the reduced probability of a terrorist incident occurring, it is noted that such incidences are low frequency events and the impact of such attacks is highly uncertain.

Options analysis

Option 2 | Simplify regime

The benefits from implementing reform Categories 1 and 2 will be due to the improved financial intelligence that will be available to AUSTRAC to track terrorism financing activity. The improved intelligence may enable AUSTRAC and other law enforcement agencies to monitor local and global terrorist networks and restrict their financing, reducing the likelihood that Australian systems will be exploited to fund terror attacks around the globe.

Category 2 reforms may yield more actionable intelligence of terrorism financing due to the expansion of digital currency services under regulation, as well as the broadening of travel rule requirements to DCEPs and remitters and the expansion of IFTI reporting requirements to digital currency transfers. These reforms will provide AUSTRAC with greater oversight over international transfers in and out of Australia and more information regarding the identities of the parties involved. This intelligence may be more beneficial for monitoring terrorism networks, particularly those based overseas with links to Australia.

This option therefore receives a relevance score of Medium.

Option 3 | Expand regime

³³ Reuters, 2023, *Crypto's role in terrorist financing*, accessed 11 July 2024 from <https://www.reuters.com/technology/cryptos-role-terrorist-financing-2023-10-23/>

³⁴ Schmidt A 2024. Impacts of money laundering and terrorism financing: Final report. Special reports. Canberra: Australian Institute of Criminology. <https://doi.org/10.52922/sp77543>

Expanding the AML/CTF regime to tranche two entities will represent an approximately 192% increase in total economic activity under surveillance, which will increase the amount of actionable data provided to AUSTRAC. However, it is not clear whether the tranche two sectors are commonly used to facilitate terrorism financing, meaning that the increase in actionable intelligence regarding terrorism financing may not be proportional to the increase in total economic activity under surveillance. It therefore receives a relevance score of Low.

Option 4 | Simplify and expand regime

Option 4 will provide the combined benefits of Option 2 and 3 above. This option receives a relevance score of Medium to High.

Table 21 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Reduced loss of life from terrorism	Medium	Low	Medium to High

4.1.4 MCA scoring

The four key benefits for businesses and the Australian community all rely on greater collection, and more efficient processing, of financial data. In particular, the three options to modernise and/or expand the regime would result in the following benefits:

- Option 2 – more efficient management of AML/CTF programs, more efficient data collection and additional digital currency services added to the regime
- Option 3 – additional tranche two entity services added to the regime will increase the total level of data collection by approximately 90,000 regulated entities
- Option 4 – Option 2 and 3 combined.

These combinations of benefits result the MCA scores presented in Table 22.

Table 22 | Community and business benefit MCA scores

MCA criteria	Option 1: Status-quo	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Community and business benefits	0	+2	+9	+10

Option 2 – Simplify regime

Option 2 has received a score of +2 as it will provide AUSTRAC and its partner law enforcement agencies with additional financial intelligence from services and transactions that are currently subject to limited to no oversight under the existing AML/CTF regime. The intelligence gathered under the reforms will also likely be more actionable under the proposed reforms as regulated entities are provided with clearer obligations and additional flexibility to identify and monitor suspicious customers and transactions. The improved financial intelligence under the reformed regime will support AUSTRAC and its partner agencies to investigate money laundering and terrorism financing offences and monitor criminal and terrorist networks.

The improvement in financial intelligence will help to reduce damage to the community from crime by increasing the confiscation of criminal assets and funds that would otherwise be reinvested in criminal activities, whilst also deterring crime by reducing the ability of criminals to launder their proceeds. This may help to prevent other negative community impacts of money laundering, such as asset price inflation in sectors subject to high rates of money laundering. The improvement in monitoring of terrorist networks may also minimise the risk of terrorist attacks and their associated harm, as law enforcement agencies are better able to identify potential terrorist actors or plans prior to them occurring.

The benefits of Option 2 are moderate in comparison to Option 3 and 4 as the expansion of surveillance over the economy is more limited. There is also limited data to measure the scale of the expansion of the regime or the value of the benefits that can be expected from the reforms.

Option 3 | Expand regime

Option 3 has received a score of +9 as it expands surveillance to sectors at high risk of facilitating money laundering and represents an increase in total economic activity under the surveillance of the AML/CTF regime of approximately 192%. The increased monitoring will act as a deterrent to criminal activity by making it more difficult and costly to launder money through sectors that currently aren't subject to strict monitoring. This will reduce the profitability of criminal activities and reduce the incentive to engage in such behaviours.

A reduction in money laundering will likely reduce any associated negative impacts on the community, such as asset illicit drug harm and price inflation in sectors with high levels of money laundering activity. While there is inadequate data to measure the impact of asset price inflation, expanding surveillance to tranche two sectors may support a reduction in illicit drug harm within an indicative range of \$200m and \$401min NPV terms over the 10-year period of this analysis. This will be dependent on the reforms reducing the proceeds of crime that groups involved in illicit drug activity are able to launder through tranche two sectors.

The increase in financial intelligence attributable to the expansion of the regime should be particularly effective in reducing criminal activity and its associated harms, as law enforcement agencies will have more information to investigate crimes and target the assets and funds of criminals and their networks, reducing their ability to reinvest in further criminal activities. Therefore, if the reforms are effective in increasing asset confiscations attributable to the financial intelligence provided by the AML/CTF regime, they will be expected to reduce investment into criminal activities.

The value of the reduction in investment in criminal activities has been calculated according to the following assumptions:

- The value of the increase in asset confiscations each year attributable to the increased financial intelligence gathered under the Category 3 reforms has been calculated per the methodology outlined in 4.2, noting that the benefits will accrue from the first year of the expanded regime.
- An estimate of 30% of asset confiscations are attributable to intelligence gathered under the AML/CTF regime. The remaining amounts recovered have been attributed to other intelligence gathered by law enforcement outside the AML/CTF regime.
- The calculation of reduced investment in crime attributable to increased asset confiscations does not include the direct financial benefit of increased asset confiscations (instead captured in Section 4.2.2).
- A proceeds of crime multiplier of 3 has been applied, based on the midpoint of the range 2 – 4 (refer to '*Reducing criminal activity*'), to calculate the avoided additional investment in criminal activities due to the increase in asset confiscations.

An increase in asset confiscations proportional to the 192% increase in economic activity under surveillance would result in \$76.1m in additional confiscations each year, attributable to intelligence provided by the AML/CTF regime. Applying the multiplier to estimate the avoided reinvestment in criminal activities attributable to this increase in confiscations yields a result of \$228m each year. This increase would result in avoided investment in crime of \$1.487bn in NPV terms over the 10-year period of this analysis.

The increased intelligence will also support law enforcement and intelligence agencies to effectively monitor terrorist networks and restrict their funding, which may minimize the risk of terrorist attacks in the future. However, the link between the reforms and reduced terrorist activity is less clear and any benefit will be in the form of a reduction in the probability of a low frequency event that will result in substantial harm to the community from occurring.

Option 4 – Simplify and expand regime

Option 4 has received a score of +10 as it yields the benefits of both Option 2 and Option 3 detailed above, whilst also supporting improved compliance and intelligence gathering from tranche two entities above what would be expected under Option 3.

4.2 Government benefits

There are two key benefits for government from enhancing the strength and coverage of their AML/CTF regime. These include:

- Increased investigation effectiveness and greater asset confiscations
- Increased tax revenue through greater recovery of unpaid tax.

4.2.1 Increased investigation effectiveness and greater asset confiscations

AUSTRAC plays a critical role in supporting Australia's law enforcement by gathering financial intelligence and insights on serious criminal activity, including money laundering, terrorism financing, and other forms of serious and organised crime. AUSTRAC also undertakes financial analysis of its intelligence holdings and other data to produce intelligence reports for law enforcement agencies including the AFP, ACIC and ATO, as well as state law enforcement bodies.

The proposed reforms to the AML/CTF regime are designed to improve the quality of financial intelligence gathered by AUSTRAC as well as increase the amount of financial intelligence gathered. Greater access to high quality financial intelligence can support law enforcement agencies to conduct more effective and efficient investigations, including by supporting earlier detection of criminal activities, more efficient collection and documentation of evidence, and improved identification of criminal networks and assets. These benefits would reduce the investigative resources required for investigations that leverage data collected through the AML/CTF regime, allowing for more investigations to be conducted across the same timeframe than was previously possible. Over time this could support productivity increases within AUSTRAC and partner agencies, helping to achieve outcomes more efficiently. This may also help to avoid the future costs of alternative, and potentially more expensive, intelligence measures.

While the benefits of improved investigative efficiency are expected to be substantial, the impact of the proposed reforms on the effectiveness and efficiency of AUSTRAC's partner agencies' investigations cannot be accurately measured using available data.

A more direct measure of the success of AUSTRAC's financial intelligence is its ability to disrupt criminal activity by identifying, restraining and subsequently confiscating the proceeds and instruments of crime. Restraining and confiscating criminal wealth is a critical tool used by Australia's federal and state law enforcement agencies to disrupt serious and organised crime. The method aims to deter crime by reducing the profitability of criminal activities and disrupting crime networks by removing access to their funds and assets. 'Proceeds of crime' laws exist at the federal level and for each state and territory, with each having different methods for targeting proceeds of crimes committed under their jurisdiction. While processes differ by jurisdiction, assets that are found to be proceeds of crime are generally liquidated, the proceeds of which are used to fund various community and law enforcement initiatives.

As part of the AFP-led Criminal Assets Recovery Taskforce (CACT), AUSTRAC intelligence plays a direct role in identifying suspected criminal assets to be restrained and, if the assets are proven to be proceeds or

instruments of crime, confiscated. Assets confiscated under the CACT are liquidated and deposited into the Confiscated Assets Account (CAA) administered by the Australian Financial Security Authority (AFSA)³⁵. The funds received from the disposal of confiscated assets are used to support community programs targeted towards crime prevention, intervention, diversion or other law enforcement/community initiatives. Between the 2010-11 and 2015-16 financial years, \$161m was approved for funding from the CAA, of which \$86.7m was provided to federal law enforcement agencies including the AFP and ACIC, \$21.6m was provided to state police forces to support Commonwealth-State task forces, and \$52.7m was provided to community projects primarily targeting community safety and security through the Safer Streets programme³⁶.

AUSTRAC contributes to the recovery of proceeds of crime across jurisdictions by providing intelligence to the police forces of each Australian state and territory, as well as an array of jurisdictional law enforcement bodies including the respective crime and anti-corruption commissions listed. The benefits delivered by Australia's proceeds of crime regimes are substantial. The CACT alone has restrained over \$998m between 1 July 2018 and 30 June 2023, and confiscated \$270m over the same period³⁷. This represents an average of \$54 million worth of proceeds of crime that are confiscated each year by the Commonwealth government. Over the same period, it cost the Commonwealth government on average \$21.6m a year to operate the CACT, for an average net benefit of \$32.3m per year. Per Table 23, state and territory proceeds of crime schemes have been similarly effective in confiscating assets, with NSW, Queensland and Victoria confiscating a combined \$391m between 1 July 2018 and 30 June 2023, at an average of \$78m per year. While data on the value of assets confiscated each year is not available for all jurisdictions, certain states and territories have recorded significant payments delivered from the disposal of confiscated assets, with Western Australia averaging \$20m per year over the same period, well above an average cost of \$3.7m to operate the confiscation function.

Table 23 | Proceeds of Crime regimes across Australia

Jurisdiction	Administered by:	Use of confiscated assets
Federal	AFP – via the CACT	Confiscated assets are deposited into the Confiscated Assets Account and used to fund community programs including crime prevention, intervention, diversion initiatives.
NSW	NSW Crime Commission, Office of the Director of Public Prosecutions (ODPP)	Proceeds from liquidation of confiscated assets are deposited into the Confiscated Proceeds Account administered by NSW Treasury
QLD	Crime and Corruption Commission Queensland, ODPP	Confiscated assets are liquidated by Queensland's Public Trustee, and the proceeds are paid to Queensland's Consolidated Fund.
VIC	Victoria Police, Office of Public Prosecutions (OPP), Department of Justice and Community Safety Victoria	Proceeds from confiscated assets are deposited into a consolidated fund, some of which may be awarded to victims of crime.
SA	ODPP	Proceeds from confiscated assets are paid into either the Victims of Crime Fund or the Justice Rehabilitation Fund, both of which are used to fund schemes that benefit the community.

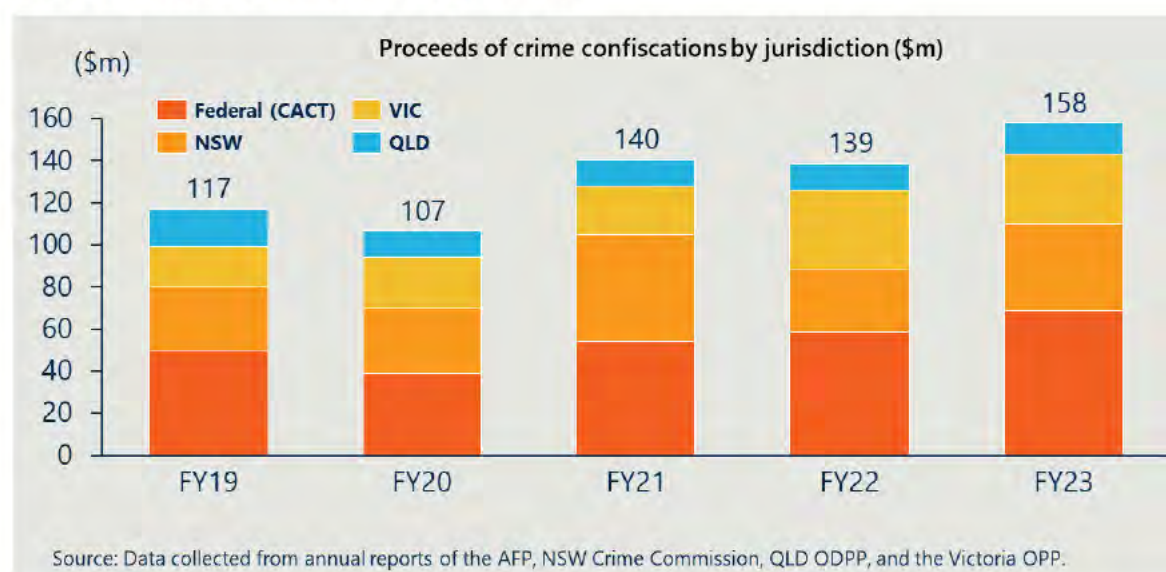
³⁵ Australian Federal Police. (n.d.). Criminal assets. Retrieved January 15, 2024, from Australian Federal Police website: <https://www.afp.gov.au/crimes/serious-and-organised-crime/criminal-assets>

³⁶ Australian National Audit Office (2017), *The Award of Funding under the Safer Streets Programme*, Auditor-General Report No. 41 2014–15, retrieved 10 July 2024, from https://www.anao.gov.au/sites/default/files/ANAO_Report_2016-2017_43_0.pdf

³⁷ Australian Federal Police. (n.d.). Annual reports. Retrieved January 15, 2024, from Transparency Portal website: <https://www.transparency.gov.au/portfolio-entities-companies/attorney-general-s/australian-federal-police#annual%20reports>

Jurisdiction	Administered by:	Use of confiscated assets
TAS	ODPP	Proceeds from the disposal of assets are transferred into the Public Account
WA	WA Police, ODPP	Proceeds from confiscated assets are used by the WA Police Force to fund operations targeting organized crime
ACT	ACT Policing, ODPP	Proceeds of confiscated assets are placed into the Criminal Asset Trust
NT	ODPP	Proceeds from the disposal of confiscated assets are deposited by the Public Trustee for use by the government

Figure 4 | Proceeds of confiscations by jurisdiction



Current crime programs in Australia confiscate substantial amounts of illicit assets and funds. However, there are still significant amounts circulating that are not being confiscated under the existing regime. While it is not possible to accurately confirm the total value of illicit money in Australia, there has been literature on estimating the amount of money laundered in Australia each year. In the Australian context, the amount of domestic money laundered is estimated to be 1.7 per cent of Australia's gross domestic product (GDP), and when flowthroughs and laundering of foreign criminal money are added, up to 2.3 per cent of GDP. These figures equate to approximately \$45 billion and \$60 billion, respectively³⁸.

The figures discussed above provide an indication of the scale of the existing confiscation regime relative to the total amount of money laundered each year. In addition, a substantial proportion of the assets confiscated under the existing regime originate from sectors not yet covered by the AML/CTF regime. This is especially true for the real estate sector, with commercial and residential property accounting for 65.2% of the CACT's total gross restraints for the 2022-2023 financial year, amounting to \$220.71m in total³⁹. Extending the AML/CTF regimes to cover additional high-risk sectors will improve the likelihood that the additional laundered money and assets will be identified and subsequently restrained and confiscated.

An increase in asset confiscations attributable to the improved intelligence provided to and by AUSTRAC will present a direct financial benefit for the government from the disposal of the confiscated assets. While

³⁸ Joras Ferwerda, Alexander van Saase, Brigitte Unger and Michael Getzner, 'Estimating money laundering flows with a gravity model-based simulation' (2020) 10(18552) *Scientific Reports*, 6. Note, AUD figures have been calculated using Australia's nominal GDP as at 31 Dec 2023. <<https://www.nature.com/articles/s41598-020-75653-x>>.

³⁹ AFP 2023, AFP submission to Attorney-General's Department - Consultation paper on Modernising Australia's anti-money laundering and counter-terrorism financing regime, retrieved 10 July 2024 from: https://consultations.ag.gov.au/crime/aml-ctf/consultation/download_public_attachment?sqld=question-2022-01-06-6908678210-publishablefilesquestion-1&uuld=968181792

the financial benefit of confiscating proceeds of crime is not the primary goal of proceeds of crime schemes in Australia, it provides a financial benefit to the community using funds that would otherwise be used to invest in further criminal initiatives.

Options analysis

The proposed reforms will primarily support improved investigation effectiveness and asset confiscations by increasing the quality and quantity of financial intelligence gathered from regulated entities. The impacts will vary considerably depending on the size of the reporting population impacted by each reform, with the Category 3 reforms likely to deliver significantly more financial intelligence than the Category 1 and 2 reforms. This variance has been considered in the scoring of each option for delivering the proposed benefits within a range of 1 to 5, where 5 is highly relevant. The relevance of each option is summarised in Table 24.

Option 2 | Simplify regime

The proposed Category 1 reforms will support improved investigation effectiveness and asset confiscations by improving the quality of intelligence provided by regulated entities through the AML/CTF regime that can be used to identify proceeds of crime. The improvements in intelligence relating to each of the relevant reforms is described below.

Improved risk management and due diligence by regulated entities

The proposed reforms to clarify reporting entities' obligations regarding their AML/CTF program and CDD will support improved compliance with the AML/CTF regime. By making reporting entities' obligations clear and understandable, the AML/CTF regime will enable businesses to implement more effective processes for identifying and managing money laundering and terrorism financing risks. If the reforms improve the ability of reporting entities to identify and monitor high-risk customers, businesses would be better able to monitor and report suspicious behaviour and provide more actionable intelligence to AUSTRAC.

Improved information sharing and understanding of requirements

Under the current regime, legal barriers to sharing information between entities in a group impedes the ability for reporting entities to share information on high-risk customers and suspicious transactions. Reforming group risk management and the tipping off offence to facilitate improved information sharing amongst group entities will support reporting entities to effectively coordinate with their related group entities and provide higher quality and more actionable intelligence to AUSTRAC.

Improved monitoring of gambling transactions under the lower gambling threshold

By lowering the transaction threshold for performing CDD for gambling service customers from \$10,000 to \$5,000, this means that more gambling customers are subject to CDD requirements. This will improve the ability of impacted businesses to identify high-risk customers and monitor for suspicious activity, as potentially high-risk customers may have avoided the previous threshold for CDD. Although customers engaging in money laundering may change their tactics to avoid detection, the increased requirements will ensure stricter identification and monitoring by gambling services which will provide AUSTRAC with additional financial intelligence through TTRs and SMRs. The additional intelligence may support AUSTRAC to identify, restrain and confiscate illicit funds being laundered through gambling services.

Increased oversight of digital currency services

The proposed Category 2 reforms will represent both an increase in surveillance across the economy as well as an improvement in the quality of intelligence gathered. By expanding AML/CTF regulation to a broader range of digital currency services, AUSTRAC will subject a greater number of high-risk services and transactions to surveillance. This will include businesses that offer services to facilitate the exchange of one or more forms of digital currency, as well as those administering and holding digital currencies on behalf of a customer and those providing financial services relating to initial coin offerings and similar arrangements. While many digital currency businesses offering these services will likely already be regulated under the AML/CTF regime, the expansion of the regime to the additional services will ensure

that high-risk transactions that were previously outside the remit of the regime will now be subject to AML/CTF surveillance.

Updating the travel rule requirements to include remitters and DCEPs and extending the travel rule and IFTI reporting requirements to include digital currency transfers will require reporting entities to obtain and record substantially more information on the identities of parties involved in regulated transactions. This will provide AUSTRAC with intelligence over a range of high-risk transactions that were not previously covered under the AML/CTF regime, whilst also providing higher-quality intelligence on the parties involved in the transactions.

The improved intelligence that may be produced under these reforms would improve the overall efficiency of investigations that leverage the data collected through the AML/CTF regime. The improved intelligence may also enable law enforcement agencies to better identify assets or funds acquired from or used in the facilitation of a crime. While the impact of these reforms may be substantial, the scale of the increase in economic activity under the surveillance of the AML/CTF regime cannot be determined due to insufficient data on the number of digital currency businesses providing the proposed services, as well as the number of transactions that would be covered under the proposed reforms.

Based on these improvements to the AML/CTF regime, this option receives a relevance score of Low to Medium.

Option 3 | Expand regime

Implementation of the Category 3 reforms will extend the range of sectors under the AML/CTF regime and increase the total economic activity subject to surveillance by 192%. It will also expand surveillance across various stages of the money laundering process. For example, criminals wanting to launder illicit funds through tranche two sectors such as real estate or precious metals and precious stones, prior to or after entering the financial system, will now face checks and balances at each stage of the process, increasing the likelihood that proceeds and instruments of crime will be identified and subsequently restrained. This will enhance the level of actionable intelligence that AUSTRAC can collect and disseminate to partner agencies each year.

Using the assumption that 30% of asset confiscations are attributable to intelligence gathered under the AML/CTF regime, if the increased surveillance under the Category 3 reforms was to result in a proportional increase in asset confiscations (192%), based on an average of the previous five years this would be equivalent to an additional \$31m in confiscations and \$19m in net benefit for the CACT each year (noting that this increase may take multiple years to materialise). While data on confiscations across state and territory jurisdictions is not complete and may differ in how it is collected and reported, a comparable increase in confiscations across NSW, Queensland and Victoria would represent an additional \$45m per year, noting that comparable data on the cost of administering confiscated assets is not provided for all jurisdictions. It is noted that any estimated increase in the amount of assets restrained and confiscated will, in practice, be impacted by a wide variety of factors outside the scope of AML/CTF regulation. For example, the sophisticated methods used by many criminals to hide their illicit wealth, resourcing of asset confiscation police teams, operational complexity of the cases, availability of required evidential material and capacity of the judicial system

This option therefore receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Implementing the Category 1, 2 and 3 reforms together will have the combined impact of both Option 2 and Option 3 detailed above, with the additional benefits of expanding the Option 2 benefits to tranche two entities. This option therefore receives a relevance score of High.

Table 24 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Increased investigation effectiveness and greater asset confiscations	Low to Medium	Medium to High	High

4.2.2 Increased tax revenue through greater recovery of unpaid tax

Tax gaps refer to the estimated difference between the amount of tax that a tax office expects to collect and the amount that would be collected if every taxpayer paid their taxes in accordance with the law. The ATO most recently estimated that the overall Australian tax gap was \$37.5 billion for the 2020-21 financial year⁴⁰. This was comprised of:

- \$21.4 billion in personal income tax
- \$6.6 billion in corporate tax
- \$4.8 billion in excise and other taxes
- \$1.9 billion in goods and services tax.

Currently AUSTRAC contributes to the ATO's revenue recovery operations through two key channels. The first is the Serious Financial Crime Taskforce (SFCT) and the second is through the provision of high-volume transaction data to the ATO to identify undeclared foreign income and serious non-compliance with Australia's tax regime.⁴¹

The SFCT is an ATO-led multi-agency taskforce tasked with identifying and addressing the most serious and complex financial crimes. AUSTRAC contributes analysis and financial intelligence to the SFCT, which supports the ATO to identify and recover unpaid tax liabilities. Since the 2018-2019 financial year, AUSTRAC data has supported the SFCT to identify an average of \$250 million of tax liabilities per year⁴². Over the same period, an average of \$98 million was recouped per year from tax liabilities identified by the ATO⁴². It is important to note that it can take considerable time for identified liabilities to be recouped, if at all, depending on the complexity of the investigation. As a result, the revenue recouped will not necessarily be from tax liabilities identified during the same period.

In addition to its contributions to the SFCT, AUSTRAC provides high-volume transaction report data directly into the ATO's systems via its Analyst Workbench (AWB). The AWB allows partner agencies, including the ATO, Department of Home Affairs and the AFP to directly access AUSTRAC's transaction reporting database, which includes SMRs, for use in their investigations. Since the 2019-2020 financial year, ATO has used AUSTRAC data (separate from SFCT arrangements) to raise an additional \$61 million of tax liabilities on average per year⁴³. However, due to data limitations, it is not possible to calculate the amount of the tax liabilities raised using AUSTRAC's data that were able to be recouped.

The proposed reforms would be expected to increase the contribution that AUSTRAC can make to the ATOs revenue recovery and the effectiveness of the SFCT, increasing the amount of tax liabilities identified

⁴⁰ Australian Taxation Office, (2023). Australian tax gaps - Tax gap program summary findings. Retrieved 20 June 2024, from <https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/australian-tax-gaps-overview/tax-gap-program-summary-findings>

⁴¹ AUSTRAC Annual Report 2022-23, AUSTRAC.

⁴² Australian Taxation Office (n.d.), Annual reports, Retrieved January 15, 2024, from Transparency Portal website: <https://www.transparency.gov.au/portfolio-entities-companies/treasury/australian-taxation-office>

⁴³ AUSTRAC (n.d.), Annual reports, Retrieved January 15, 2024, from Transparency Portal website: <https://www.transparency.gov.au/portfolio-entities-companies/attorney-general-s/australian-transaction-reports-and-analysis-centre-austrac>

and recovered. This would provide a direct financial benefit to the federal government by increasing tax revenue, which would support the community through improved funding of public services and infrastructure.

Options analysis

The proposed reforms will primarily impact the recovery of unpaid tax liabilities by improving the gathering of financial intelligence from regulated entities. The proposed reforms under each option vary in how they will support improved intelligence gathering and are not all equally relevant to increasing the identification and recovery of unpaid tax liabilities. The relevance of each option is summarised in Table 25.

Option 2 | Simplify regime

The proposed Category 1 and 2 reforms will support the identification and recovery of unpaid tax liabilities by improving the quantity and quality of intelligence that AUSTRAC is able to collect and provide to the ATO. Improvements to the quality of financial intelligence provided to AUSTRAC will be driven by:

- Simplifying AML/CTF program requirements
- Updated requirements for group risk management and information sharing
- Clarifying CDD obligations.

Category 1 reforms will clarify the regulated entities' obligations under the AML/CTF regime, supporting them to comply with their obligations and to focus their efforts where the ML/TF risk is highest for their business. In addition, it will provide regulated entities with more flexibility in conducting their transaction monitoring processes and sharing information within their groups, allowing them to better understand and monitor their customers. These changes would allow regulated entities to provide higher quality intelligence to AUSTRAC that could be used to identify unpaid tax liabilities.

The Category 2 reforms to expand the AML/CTF regime to a broader range of digital currency services will expand surveillance to a range of services that are at high risk of being used to facilitate tax evasion. By expanding monitoring to these services, AUSTRAC will be supplied with greater levels of intelligence which the ATO can use to identify instances of tax evasion and effectively track individuals' assets to recover these unpaid liabilities. In addition, the proposed changes to the travel rule and IFTI reporting requirements will provide more detailed information on the parties involved in digital currency transactions for services currently under regulation and those to be regulated under the proposed reforms. The additional identification information will support the ATO to trace unpaid tax liabilities to specific individuals by data matching individuals' digital currency transactions to other tax information. The increased requirements will also have the dual benefit of deterring those engaging in tax evasion from doing so by increasing the likelihood of being caught and prosecuted.

The option therefore receives a relevance score of Low to Medium.

Option 3 | Expand regime

The expansion of the regime under the Category 3 reforms will increase the number of entities providing intelligence and increase the proportion of total economic activity under surveillance. Expanding the AML/CTF regime to tranche two entities would increase total economic activity under surveillance by 192%. Such an expansion of the economy under surveillance will enhance the level of actionable intelligence that AUSTRAC can collect and provide to the ATO. This information will support the ATO to identify and monitor individuals and companies engaging in tax evasion or fraud, including by better identifying undeclared sources of income, undeclared ownership of assets and other financial transactions that are not reported in lodgments that may indicate suspicious behaviour. This will enable the ATO to more effectively identify and trace undeclared tax liabilities, increasing the amount of the overall tax gap that the ATO is able to recover.

The reforms will also expand surveillance over various services, transactions, transfers of ownership and other methods used to avoid tax obligations. In addition to representing a greater proportion of total

economic activity, tranche two sectors are frequently used to disguise the ownership of assets or income to evade tax liabilities or commit tax fraud. The methods used to commit tax evasion and fraud often also utilise multiple tranche two sectors. By expanding the AML/CTF regime to trust company service providers, the real estate sector, and other professional service providers such as lawyers and accountants, AUSTRAC will be able to collect intelligence on ownership of assets or income across multiple stages of the processes taken to evade tax or commit tax fraud. This will provide ATO with substantially more intelligence to use to trace individuals and companies engaged in tax crimes as well as their unpaid tax liabilities. In addition, the additional intelligence will provide the ATO with more evidence to support the efficiency of their investigations and prosecutions of tax crimes.

The option therefore receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Implementing the Category 1, 2 and 3 reforms together will have the combined impact of both Option 2 and Option 3 detailed above, with the additional benefits of expanding the Option 2 benefits attributable to reforms to AML/CTF program, CDD and group risk management and information sharing obligations to tranche two entities.

These reforms will support tranche two entities to effectively comply with their obligations and provide them with more flexibility in conducting their transaction monitoring processes and sharing information within their groups. These changes would result in tranche two entities being able to provide higher quality intelligence to AUSTRAC than they would otherwise provide under Option 3. The improved intelligence would be used by the ATO to identify and recover more unpaid tax liabilities; however, the scale of this impact cannot be ascertained using the available data.

The option therefore receives a relevance score of High.

Table 25 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Increased tax revenue	Low to Medium	Medium to High	High

4.2.3 MCA scoring

The two benefits for government discussed above are largely reliant on additional sources of intelligence from the inclusion of additional designated services. Table 26 presents the MCA scores for government benefits under the three options.

Table 26 | Government combatting crime benefit MCA scores

MCA criteria	Option 1: Status-quo	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Government benefits – Combatting crime	0	+2	+9	+10

Option 2 – Simplify regime

Option 2 has received a score of +2 as it will provide AUSTRAC and therefore the ATO and law enforcement with additional and higher quality financial intelligence. The benefits of Option 2 are moderate in comparison to Option 3 and 4 as the additional designated services to be included under the AML/CTF regime are much more limited. In addition, there is limited data to measure the scale of the expansion of the regime or the value of the benefits that can be expected from the reforms.

Option 3 – Expand regime

Option 3 has received a score of +9 as it represents an increase in total economic activity under the surveillance of the AML/CTF regime of approximately 192%. Such an increase in the proportion of the economy under surveillance will yield a significantly greater amount of financial intelligence which AUSTRAC and its partner agencies can use to investigate crimes and identify and restrain unpaid tax, proceeds of crime and other instruments of crime. The increase in financial intelligence has been estimated to yield:

- \$220m in additional recovered tax liabilities over ten years in NPV terms, and
- \$296m in proceeds from additional asset confiscations over ten years in NPV terms.

The increase in tax recoveries and asset confiscations that could be expected under the Category 3 reforms has been calculated based on the following assumptions:

- A proportional 192% increase in recovery of unpaid tax liabilities and asset confiscations due to the increased financial intelligence gathered (currently \$98m of unpaid tax liabilities are recovered and \$132m (consisting of \$54m confiscated by CACT and \$78m by NSW, Queensland and Victoria) of proceeds of crime is confiscated on average each year).
- An estimate of 30% of tax recoveries and asset confiscations are attributable to intelligence gathered under the AML/CTF regime. The remaining amounts recovered have been attributed to other intelligence gathered by law enforcement outside the AML/CTF regime.
- An average period of 3 years from the implementation of the proposed AML/CTF reforms is required for the benefits to be 100 per cent realised each year. This is a more conservative estimate compared to the average two-year timeframes for assets under the custody and control of the Official Trustee, and five months to move from restrained to forfeited. It is noted that this timeframe only relates to assets under the Official Trustee's control and may not represent all assets restrained due to intelligence provided by the AML/CTF regime. As comparable data does not exist to estimate the time taken to recover unpaid tax liabilities, the same timeframe has been used, noting that the time taken for tax liabilities to be recovered may range from immediate payment post-identification to several years.

Option 4 – Simplify and expand regime

Option 4 has received a score of +10 as it yields the benefits of both Option 2 and Option 3 detailed above, whilst also supporting improved compliance and intelligence gathering from tranche two entities above what would be expected under Option 3.

5 Benefits of strengthening FATF compliance

The reforms considered will primarily assist in responding to recommendations with which Australia is non-compliant (22, 23 and 28) or partially compliant (15 and 16) (as outlined in Section 2.1 Reform Context). The four options respond to different numbers of FATF recommendations:

- **Option 1 – Maintain status-quo.** This option would make no improvements to compliance with FATF recommendations.
- **Option 2 Simplify regime: Addresses two partially compliant FATF recommendations.** By undertaking the Category 1 and 2 reforms, Australia would likely improve its compliance with two FATF recommendations currently rated as partially compliant (recommendations 15 and 16). This option does not substantially address any of Australia's non-compliant recommendations.
- **Option 3 – Expand regime: Addresses three non-compliant FATF recommendations.** Expanding the existing AML/CTF regime to tranche two entities without implementing the Category 1 and 2 reforms will improve compliance with all three of the in-scope non-compliant recommendations (recommendations 22, 23, 28).
- **Option 4 – Simplify and expand regime: Addresses three non-compliant and two partially compliant FATF recommendations:** Expanding the existing AML/CTF regime and implementing the Category 1 and 2 reforms will improve compliance with all three of the in-scope non-compliant recommendations (22, 23, 28) and two currently assessed as partially compliant (15, 16).

Becoming more compliant with recommendations—particularly to address Australia's long-standing lack of regulation of tranche two entities—and demonstrating a continued commitment to tackling money laundering and terrorism financing is crucial to remaining off the list of jurisdictions under increased monitoring.

The following two subsections outline two key benefits to Australia of FATF compliance across the policy options, including:

- Avoided reputational damage to Australia
- Avoided reduction in foreign investment in Australia.

5.1 Avoided reputational damage to Australia

Failure to implement adequate AML/CTF laws and regulations may be perceived by foreign investors and governments as an indicator of Australia not acting to prevent and/or a higher prevalence of money laundering or terrorism financing activity. This association between a nation and money laundering or terrorism financing occurring can be damaging to a nation's reputation, impacting the nation's ability to be a leader in financial markets and reducing the nation's political influence.

Australia currently plays an active role in diplomacy throughout the Asia-Pacific region, an area that has become a growing area of focus for Australia's national security. Australia participates in multiple transnational forums to promote cooperation in the region in the fight against transnational organised crime, including through the Pacific Island Forum's Regional Transnational Organised Crime Disruption Strategy.⁴⁴ The strategy notes that the lucrative market for illicit trade in Australia and New Zealand has meant that many Pacific nations have become transit points for the movement of illicit substances. Failure to address perceived weaknesses in Australia's approach (including—most seriously—the long-standing lack of AML/CTF regulation of lawyers, accountants and real estate professionals) to money laundering and organised crime could weaken Australia's relationships with countries in the Pacific region that are negatively impacted by transnational organised crime groups attempting to access the Australian market.

⁴⁴ Pacific Islands Forum, 2024, *Regional Transnational Organised Crime Disruption Strategy*,

Currently Australia does not fully comply with all the latest FATF recommendations. Although the FATF recommendations are not considered international law, they are the standard framework for effectively combatting money laundering and counter terrorism financing. The FATF evaluates the compliance of member nations with the latest recommendations. These evaluations are made public, and a negative evaluation can lead to increased monitoring by the FATF, externally referred to as being grey listed. When nations choose not to implement FATF recommendations, they can be seen as a weak link in the fight against money laundering and financial crime by other countries who have implemented the recommendations.

Australia's lack of regulation of high-risk industries including lawyers, accountants and real estate agents has already been publicly noted as a weakness in our approach to fighting organised crime,⁴⁵ and continued inaction in this area poses Australia's most serious risk of grey-listing by the FATF. This would further erode our reputation amongst our international peers.

Being identified on the grey list would create large reputational damage for Australia. The FATF encourages its wide ranging and many jurisdictions (over 200, including the largest economies in the world) to consider transactions with those publicly identified on the grey list with increased scrutiny and, in serious cases, to apply counter measures.

Options analysis

The greatest benefit in avoiding damage to Australia's reputation would come from addressing the FATF recommendations that Australia is currently non-compliant with. These recommendations concern the regulation of tranche two entities which are seen as potential facilitators of money laundering and terrorism financing.

As a result, not all options are equally relevant to delivering the proposed benefits outlined above. As discussed below, the varying relevance of each option in delivering the proposed benefits outlined above is summarised in Table 27.

Option 2 | Simplify regime

The Category 2 reforms to extend AML/CTF regulation to additional digital currency services and update the travel rule would address Recommendations 15 and 16 with which Australia is currently assessed as partially compliant. While this may help prevent reputational damage to Australia's economy by regulating services seen to be at high risk of exploitation for money laundering and terrorism financing, it does not address the three in-scope recommendations with which Australia is currently non-compliant and which carry the most reputational risk. Under Option 2, tranche two entities would remain unregulated under the AML/CTF regime, exposing Australia to grey-listing by FATF and any additional reputational risk attributable due to perceptions of exposure to money laundering and terrorism financing within these industries. It therefore receives a relevance score of Low.

Option 3 | Expand regime

The expansion of AML/CTF regulation under Option 3 would address Australia's compliance with the in-scope FATF recommendations with which we are currently assessed as non-compliant. This would significantly reduce the likelihood of grey-listing by FATF and the associated reputational damage that would likely occur as a result. In addition, the regulation of these sectors may improve Australian businesses' reputation, independent of the impacts of grey-listing, due to improved perceptions and trust regarding the management of money laundering and terrorism financing risk in these sectors. This may bring commercial and business benefits.

However, the failure to implement the Category 2 reforms detailed under Option 2 would leave Australia only partially compliant with recommendations 15 and 16. It may also undermine improved compliance with recommendation 22, which relies on the Category 1 updates to the threshold for performing CDD for

⁴⁵ Global Organised Crime Index, Accessed July 5, 2024 from: ocindex.net/country/australia

gambling service providers to be lowered in line with FATF guidance. These deficiencies in isolation do not pose a substantial risk of grey-listing by FATF, however they may erode Australia's international reputation due to perceptions of heightened money laundering and terrorism financing risk. It therefore receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Option 4 addresses all in-scope areas of Australia's deficiency in its compliance with the FATF recommendations, improving compliance with the three non-compliant recommendations as well as the partially compliant Recommendations 15 and 16. Implementing Option 4 would likely be most effective in minimising the likelihood of grey-listing and its associated reputation damage. In addition, achieving largely compliant or compliant ratings across all in-scope recommendations will minimise the likelihood any reputational damage that may occur. It therefore receives a relevance score of High.

Table 27 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Avoided reputational damage to Australia	Low	Medium to High	High

5.2 Avoided reduction in foreign investment in Australia

Based on the observed experience of other nations, it is possible that the damage to Australia's reputation could negatively impact the Australian economy through a loss of global investor confidence. This could lead to reduced foreign direct investment (FDI), and even cause investors to divest currently held assets. Furthermore, it is possible for foreign banks to restrict access for Australian banks to international financial markets due to the increased risk of AML/CTF activity in the Australian banking sector. This could restrict economic growth across nearly every sector in Australia.

As of 31 December 2023, Australia had \$1,180 billion in FDI, as well as portfolio investments of \$858 billion in equity and \$1,429 billion in debt from foreign sources of finance (Figure 5). The level of this investment has been driven by consistent capital inflows over many years, with FDI inflows into Australia averaging \$44.6 billion per year since 2001, while portfolio investment inflows (both debt and equity) averaged \$78.8 billion over the same period⁴⁶. Any damage to Australia's reputation could risk reduced access to foreign capital and impact these levels of investment in the Australian economy.

Various economic studies have attempted to quantify the economic impact of grey-listing on a country's economy. The results of such studies are varied and contested. A recent analysis conducted on a sample of 89 emerging and developing countries between 2000 and 2017 found that grey-listing had a large and statistically significant negative effect on capital inflows⁴⁷. Specifically, the analysis found grey-listing was responsible for an average decline in capital inflows of 7.6%⁴⁸. For different types of foreign investment, this study observed that grey-listed emerging and developing countries experienced:

- FDI inflows declining by 3.0%, and

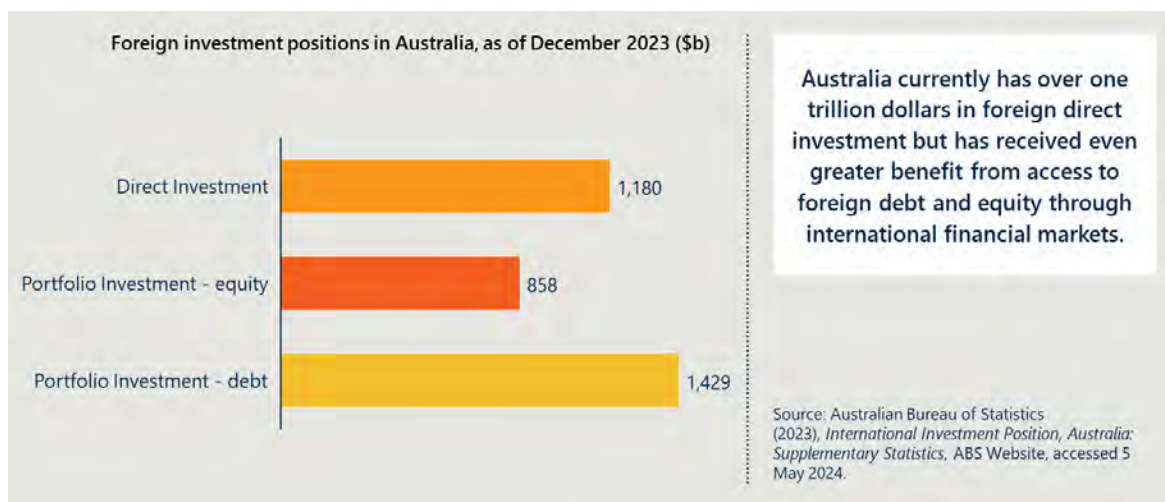
⁴⁶ Australian Bureau of Statistics (2023), International Investment Position, Australia: Supplementary Statistics, ABS Website, accessed 5 May 2024.

⁴⁷ Kida, M. and Paetzold, S., 2021. *The impact of gray-listing on capital flows: an analysis using machine learning*. International Monetary Fund.

⁴⁸ The study measured outcomes for foreign investment as a share of GDP, to standardise results across economies of different sizes. For analysis used later in this report, it is important to note that, for example, a 3% change in capital inflows for a country is equivalent (in amount of capital inflows) to a 3% change in the share of capital inflows as a proportion of GDP.

- Portfolio investment (debt and equity) inflows declining by 2.9%.

Figure 5 | Foreign investment in Australia, as of December 2023 (\$b)



Australia is currently scheduled to have its AML/CTF measures comprehensively assessed as part of a Mutual Evaluation by the FATF over 2026 and 2027, and is at risk of grey-listing due to the failure over many years to address the identified deficiencies in the country's AML/CTF regime. Australia is currently one of five jurisdictions out of more than 200 that do not include tranche-two entities in the AML/CTF regime. A failure to act against deficiencies in areas of considerable risk exposes Australia to an adverse finding and any associated reductions in foreign investment inflows that may result.

The avoidance of a reduction in foreign investment inflows in response to grey-listing by FATF would present a significant benefit from the strengthening of Australia's AML/CTF regime. While the consequences of grey-listing could be significant, the likelihood of this occurring to Australia are unknown. It is possible that without reform, Australia may not be grey-listed. For Australia to experience the potential impacts to foreign investment resulting from grey-listing, the FATF would need to deliver an adverse finding as part of its evaluation process. The probability of Australia being grey-listed due to an adverse finding by the FATF cannot be determined, however it remains a possible outcome so long as Australia remains non-compliant with key FATF recommendations, particularly regarding the regulation of tranche two entities.

It must be noted that the reductions in capital inflows due to grey-listing outlined above were experienced in the months immediately prior to and after each country's grey-listing was announced. From the study, it cannot be determined how capital inflows would respond to grey-listing over multiple years, especially as grey-listing may have caused the countries in the study to take proactive or reactive action to address their AML/CTF deficiencies, reducing the negative impact of the initial announcement. While it is possible that Australia could choose to implement the proposed reforms only in the event of grey-listing occurring, this scenario is not considered within any of the four policy options given their policy intent.

The magnitude of the impact of grey-listing on Australia's foreign investment is also uncertain as discussed in the literature, and may be minor, as noted by the United Nations South Africa⁴⁹. Furthermore, Balakina, D'Andrea and Masciandaro (2016) found no consistent effect of grey-listing on cross-border bank flows⁵⁰. The findings of Kida and Paetzold (2021) may not be directly relevant to the Australian context as the analysis was only conducted on emerging and developing countries. This means that the observed reductions in foreign investment inflows to those countries may not be directly comparable to what Australia's economy would experience, at least in terms of magnitude, if it were to be grey-listed. Australia's economy is structurally different to the developing countries included in the study, which would

⁴⁹ United Nations South Africa (2023). Grey listing in South Africa: A note on possible socioeconomics implications.

⁵⁰ Balakina, O., D'Andrea, A., & Masciandaro, D. (2017). Bank secrecy in offshore centres and capital flows: Does blacklisting matter?. *Review of Financial Economics*, 32, 30-57.

likely mean any reduction in foreign investment due to grey-listing would likely occur to a lesser extent than was observed in those developing countries.

Furthermore, as Australia's non-compliance with the FATF recommendations is primarily restricted to the lack of AML/CTF regulation of tranche two entities, it is unclear whether grey-listing would have the same impact on foreign investment across the whole economy. As certain sectors, including financial services, are already regulated, foreign investors may not be deterred from investing in these industries if any adverse findings by the FATF were due to shortcomings in tranche two industries. In addition, for smaller developing and emerging markets that receive comparatively less foreign investment compared to Australia, grey-listing may act as a stronger signal to foreign investors of the risks of investing in these countries compared to Australia, which is a well-known international market for investment.

Limitations aside, due to the scale of annual foreign investment in Australia, even minor impacts relating to being grey-listed could have significant impacts on the Australian economy. Over the past five years, Australia averaged \$48.8bn of foreign direct investment and \$77.3bn of portfolio investment liabilities each year⁵¹. This represents approximately \$126bn each year in foreign investment. To understand the potential impacts to Australia of an adverse finding leading to grey-listing, five scenarios have been outlined in Table 28 below. The relative likelihood of these scenarios is unknown and cannot be estimated based on available evidence.

Considering the uncertainty of being grey-listed and the applicability of the 2.9% and 3% estimates from Kida and Paetzold (2021) to the Australian context, impact analysis has considered three estimates (listed below) of the percentage decline in annual foreign investment inflows in Australia, comprising foreign direct investment and portfolio investment:

- a 0% lower bound estimate
- a 0.5% middle bound estimate
- a 1.5% higher bound estimate.

These estimates are lower than the reductions seen in Kida and Paetzold (2021) to reflect the structural and reputational differences between Australia's economy and developing economies. Given these differences, a 1.5% reduction was considered as the highest potential scenario in this analysis, with the middle-bound estimate of 0.5% considered to reflect the possibility of grey-listing leading to a minor reduction in foreign investment inflows. The lower bound scenario of a 0% reduction was used to reflect the possibility that not implementing these reforms does not guarantee that Australia would be grey-listed, and also, if it were, that grey-listing may have no effect on foreign investment inflows into Australia.

To account for the uncertainty regarding the duration of any impact of grey-listing, the scenarios consider three possibilities:

- No reduction in foreign investment inflows is observed (Scenario 1)
- Foreign investment inflows fall in FY27 (post-FATF Evaluation) before returning to previous levels for FY28 and the following years (Scenarios 2-3).
- Foreign investment inflows fall in FY27 and remain at the reduced level for the remainder of the following ten-year period (Scenarios 4-5).

The assumption of investment flows returning to existing levels under scenarios 2 and 3 was made to account for possible corrections in the economy that may occur after the initial response to grey-listing. These may include Australia building economic ties with new trade partners in response to the negative outcome from grey-listing to fill the shortfall in foreign investment, as well as the impact of foreign investors that initially restricted investment in Australia in order to reassess their risk assessment returning to investing at their existing levels.

⁵¹ Australian Bureau of Statistics (2023), International Investment Position, Australia: Supplementary Statistics, ABS Website, accessed 5 May 2024.

Table 28 | Scenario analysis – benefit of avoided reduction in foreign investment in Australia

Scenario	Reduction in annual foreign investment inflows (%)	Period of impact	Reduction in foreign investment over ten years (NPV, \$m)
1	0%	Nil	0
2	0.5%	FY27 only	\$560
3	1.5%	FY27 only	\$2,230
4	0.5%	FY27 – FY34	\$3,570
5	1.5%	FY27 – FY34	\$10,720

Per Table 28, if grey-listing were to lead to a small and enduring reduction in foreign investment inflows into Australia, it could cost the Australian economy significantly. A 0.5% reduction in annual foreign investment inflows could result in a ~\$3.6bn loss over a sustained period to FY34 (Scenario 4; ten years for the purposes of this impact analysis), while a larger reduction of 1.5% would cost the economy ~\$10.7bn (Scenario 5). This reduction in foreign investment would have a direct impact on business investment and growth in output in Australia. These impacts would be felt throughout the economy, including by reducing the creation of jobs stimulated by foreign investment, and potentially reducing access to global markets for local businesses. This would have additional flow on effects including reduced tax revenue for the Government and reductions in the quality of life for the wider Australian community due to greater unemployment and poorer economic growth.

Alternatively, a temporary reduction of FDI in 2027 by either 0.5% or 1.5% could result in an economic cost between \$0.6bn or \$2.2bn. This demonstrates that in four of the possible scenarios, avoiding the economic consequences of grey-listing could be a significant benefit for Australia.

This impact analysis has equated the total change in FDI to the total economic benefit, given the difficulty in estimating a causal effect (as per Iyer, Rambaldi and Tang 2009) and the mixed results in the literature of any multiplier effect on GDP.⁵² Traditional investment logic suggests that investment has multiplier effects on economic activity. For example, the Organisation for Economic Co-operation and Development (OECD) estimates that an increase in public infrastructure investment in Australia is associated with a fiscal multiplier of between 1.1 and 1.3 after two years⁵³. Alternatively, a Productivity Commission report in 2020 summarised studies on the effect of reductions in foreign investment on Australian economic outcomes⁵⁴. Notably, Gali and Taplin (2012) undertook scenario modelling that identified that a permanent drop in foreign inflows by 1% of GDP may result in a 0.6% decline in Gross National Income⁵⁵. Given the challenges, the total benefit to Australia is therefore calculated as the change in foreign investment inflows.

Options analysis

Option 2 | Simplify regime

The Category 2 reforms only address compliance with two FATF recommendations, both of which Australia is currently partially compliant with. Option 2 does not address any of the three in-scope FATF recommendations with which Australia is currently non-compliant, which carry the highest risk of grey-

⁵² Iyer, K.G., Rambaldi, A.N. and Tang, K.K. 2009, 'How trade and foreign investment affect the growth of a small but not so open economy: Australia?', *Applied Economics*, vol. 41, no. 12, pp. 1525–1532.

⁵³ OECD (2009), 'Chapter 3: The Effectiveness and Scope of Fiscal Stimulus', *OECD Economic Outlook, Interim Report*, March.

⁵⁴ Productivity Commission 2020, *Foreign Investment in Australia*, Commission Research Paper, Canberra

⁵⁵ Gali, J. and Taplin, B. 2012, 'The macroeconomic effects of lower capital inflow', *Treasury Economic Round-up*, no. 3, pp. 1–26.

listing. As a result, Option 2 will have minimal to no impact on preventing grey-listing and will leave Australia exposed to the negative impacts on foreign investment from grey-listing. It therefore receives a relevance score of Low.

Option 3 | Expand regime

Option 3 would address Australia's compliance with the three in-scope FATF recommendations that are currently assessed as non-compliant. However, it will not fully address recommendation 22, which relies on the Category 1 reform to lower the transaction threshold for performing CDD for gambling service providers. This would still be likely to result in an improved rating for recommendation 22, and would significantly reduce any likelihood of grey-listing from failure to regulate tranche two entities. Option 3 will not address Australia's partially compliant with recommendations 15 and 16, which are unlikely to lead to grey-listing but does heighten the risk of an adverse finding in the Mutual Evaluation. While it will not improve compliance with all in-scope FATF recommendations, Option 3 will effectively minimise the likelihood of grey-listing and any associated reduction in foreign investment. It therefore receives a relevance score of Medium to High.

Option 4 | Simplify and expand regime

Option 4 is effective in addressing Australia's compliance with all FATF recommendations that are currently assessed as non-compliant. Option 4 will also address recommendations 15 and 16 as outlined in Option 2. Implementing Option 4 will be most effective in minimising the likelihood of grey-listing and any associated reduction in foreign investment in Australia. It therefore receives a relevance score of High.

Table 29 | Summary of relevance per Option

Impact	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
Avoided reduction in foreign investment	Low	Medium to High	High

5.3 MCA scoring

The MCA scores for the benefit of strengthening FATF compliance, and avoiding grey-listing, reputational damage and reduced foreign investment are dependent on the likelihood of Australia being subject to a FATF review and subsequently listed as a 'Jurisdiction under increased monitoring'. This would likely result in greater due diligence requirements for Australian organisations seeking foreign investment and could potentially slow foreign investment in Australia.

Reform Option 2 addresses two FATF recommendations that Australia is partially compliant with, whereas Option 3 addresses three distinct non-compliant recommendations. Option 4 covers all the recommendations considered in Option 2 and 3. This has resulted in the MCA scores presented in Table 30.

Table 30 | FATF compliance benefit MCA scores

MCA criteria	Option 1: Status-quo	Option 2: Simplify regime	Option 3: Expand regime	Option 4: Simplify and expand regime
FATF compliance	0	+2	+9	+10

Option 2 – Simplify regime

Option 2 received a score of +2 as it should achieve a satisfactory level of compliance with two FATF recommendations against which Australia is currently assessed as partially compliant, and may support improved compliance against one currently non-compliant recommendation. This is less likely to reduce the risk of grey-listing by the FATF given this option does not involve the regulation of additional high-risk services. As a result, the value of the benefits of the strengthened compliance under Option 2 are limited, if not unknown.

Option 3 – Expand regime

Option 3 received a score of +9 as it should achieve a satisfactory level of compliance with relevant FATF recommendations against which Australia is currently non-compliant. This will likely address the greatest risk of potential grey-listing by FATF, however it will not address all in-scope FATF recommendations which elevates the risk of reputational damage to Australia. The benefits of the avoiding grey-listing and reduced foreign investment may range between \$0 and \$10.7bn (as per the scenarios in Table 28), depending on:

- the likelihood of grey-listing occurring if none of the reforms were undertaken
- the duration of any potential reduction in foreign investment inflows into Australia due to grey-listing
- the magnitude of the reduction in foreign investment inflows attributable to grey-listing.

Option 4 – Simplify and expand regime

Option 4 has received a score of +10 as it should achieve a satisfactory level of compliance with all three in-scope FATF recommendations against which Australia is currently non-compliant as well as against the two partially compliant recommendations addressed by Option 2. This will provide the greatest benefit for avoiding potential grey-listing by FATF and will minimize the likelihood of reputational damage due to poor FATF compliance. Per Option 3, the benefits of the additional compliance achieved under Option 4 may range between \$0 and \$10.7b, depending on the factors outlined above.

6 Regulatory burden of the proposed reforms

The proposed AML/CTF reforms will impact regulated and tranche-two entities. These includes changes in staffing effort to implement or deliver on regulatory obligations, receipt of external advice or services, or investment in system costs. Impacts will either be additional or savings in regulatory compliance costs, depending on the reform area and the industry and size of the business. Impacts will also extend to the customers of designated services that these businesses offer.

6.1 Regulatory burden to business

Estimated changes in regulatory burden to existing regulated and tranche two entities across proposed AML/CTF reforms as well as industry and business size are presented in the analysis below.

6.1.1 Summary

The Category 1 and 2 reforms are together estimated to result in a regulatory burden of \$350m in the first year of the reforms, with an annual reduction in regulatory burden of \$18m in each of the following years in real terms. Table 31 presents the annual regulatory burden in present value terms (e.g., a saving of \$17m in FY26) incorporating the OIA recommended discount rate. While the Category 2 reforms expand the regulation of digital currency services and increase ongoing burden, simplification of the regime under the Category 1 reforms will lead to a 10-year saving of \$153m in NPV between FY26 and FY34.

The Category 3 reforms when implemented independently of the Category 1 and 2 reforms are estimated to result in a regulatory burden of \$1.82 bn in the first year of the reforms, with the reforms estimated to result in an additional annual burden of \$2.14bn in real terms for tranche two industries in each of the following years (presented in Table 31 in present value terms incorporating the OIA recommended discount rate; e.g., a burden of \$1,998m in FY26).

Implementing the Category 1, 2 and 3 reforms together (Option 4) are estimated to indicatively result in an additional regulatory burden for businesses of \$1.85bn in the first year of the reforms, followed by ongoing additional burden of \$1.85bn in each following year in real terms (presented in Table 31 in present value terms, e.g., a burden of \$1,730m in FY26).

Table 31 | Estimated ten-year regulatory burden for businesses by option and financial year (\$m, NPV)

Option	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	Total
Option 2	350	-17	-16	-15	-14	-13	-12	-11	-10	-10	233
Option 3	1,823	1,998	1,867	1,745	1,631	1,524	1,424	1,331	1,244	1,163	15,751
Option 4	1,850	1,730	1,617	1,511	1,412	1,320	1,233	1,153	1,077	1,007	13,910

As per Table 32, the Category 1 and 2 reforms (Option 2) are estimated to result in an additional regulatory burden of \$233m over ten years, while the Category 3 reforms are estimated to result in an additional ~\$15.8bn of regulatory burden. However, implementing the Category 1 and 2 reforms in combination with the Category 3 reforms (Option 4) is estimated to result in a regulatory burden of ~\$13.9bn over ten years, meaning simplification of the regime is estimated to result in a saving of approximately ~\$1.9bn compared to Option 3.

It is assumed that AUSTRAC guidance material and education functions, through case studies, examples and guidance on AML/CTF programs and CDD, will support the simplification of the regime and to minimise the upfront costs for tranche two entities to meet obligations.

Table 32 | Estimated total ten-year regulatory burden to businesses, by option and category (\$m, NPV)

Category	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Category 1	108	-	108
Category 2	125	-	125
Category 3	-	15,751	13,677
Ten-year total	233	15,751	13,910

An overview of the regulatory burden by industry is provided in Table 33.

Table 33 | Estimated ten-year regulatory burden to businesses, by option and industry (\$m, NPV)

Category	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Financial services	84	-	84
Bullion traders	2	-	2
Gambling services	99	-	99
Digital currency exchange providers	10	-	10
Remitters	40	-	40
Accounting services	-	4,148	3,682
Legal services	-	3,355	2,883
Trust/company services	-	1,310	1,135
Real estate	-	6,843	5,892
Dealers in precious metals and stones	-	95	84
Ten-year total	233	15,751	13,910 ⁵⁶

⁵⁶ The totals in this table row are adjusted to include a \$1.7m reduction in regulatory burden to Cash Dealers under Category 1 reforms due to the repeal of the FTR Act, which is not called out as a separate industry in the table.

An overview of the average annual regulatory burden by stakeholder group over the ten-year period is provided in Table 34. This figure is presented in real terms, instead of NPV, to represent the real costs that all stakeholders in the respective group would face in an average year.

Table 34 | Estimated average annual regulatory costs by group over ten years (\$m, real terms)

Group	Option 2: Simplify existing regime	Option 3: Expand existing regime	Option 4: Simplify and expand regime
Business	19	2,106	1,851
Community organisations	-	-	-
Customers	0	52	29
Total change in costs	19	2,159	1,880

6.1.2 Option 2

The estimated additional upfront and ongoing regulatory burden to businesses of Option 2 over ten years is summarised by industry in Table 35 below.

Table 35 | Estimated total upfront and ongoing regulatory burden to businesses, by industry (\$m, NPV)

Industry	Upfront	Ongoing	Total ten-year
Financial services	265	-181	84
Bullion traders	2	0	2
Gambling services	37	62	99
DCEPs	8	2	10
Remitters	38	2	40

Category 1 reforms

The upfront regulatory burden for Category 1 reforms is estimated to be \$261m while there is expected to be an ongoing saving over ten years of \$153m due to the simplification of the regime. This is estimated to result in a ten-year total burden of \$108m. Table 36 presents the estimated total upfront and ongoing annual change in cost by business size (in real terms).

The upfront costs range from an average of \$8,880 for businesses up to \$200k in turnover to an average of \$60,610 for businesses with \$10m+ turnover. These upfront costs are predominantly driven by regulated entity staff time and external advisory services to understand the updated AML/CTF obligations and update CDD processes.

Differences in required uplift across industries and business sizes is expected to drive variation the average upfront costs to make updates to AML/CTF risk assessment requirements. Only \$10m+ businesses in the Bullion and Gambling industries are expected to need to document risk assessments, while financial services, DCEP and remitter businesses of size \$0 to \$2m will need to do the same. \$2m-\$10m businesses in any of the regulated industries are not anticipated to incur upfront costs.

For ongoing average annual costs, this ranges from an average saving per business of \$600 to \$42,790 per year for businesses with \$2m-\$10m and \$10m+ turnover respectively, to average increases ranging from \$420 to \$2,110 in ongoing annual costs for other smaller businesses. This variation is driven by savings in undertaking initial CDD per customer due to simplification of requirements. The impact is significantly larger for businesses with \$10m+ turnover due the scale of their customers bases who require upfront CDD.

Separate to these totals, decreases to the gambling threshold for CDD reporting will only affect larger businesses in the gambling industry. Gambling businesses between \$2m to \$10m+ are expected to incur an upfront cost of \$1,000 and an ongoing annual burden of \$7,100.

Table 36 | Category 1 average burden per business (\$, real), by reform and business turnover (\$)⁵⁷

Reform	Frequency	\$0 - \$200k	\$200k - \$2m	\$2m - \$10m	\$10m+
Understanding the updated AML/CTF obligations	Upfront	7,080	10,550	15,430	40,050
	Annual	-	-	-	-
Updates to AML/CTF risk assessment and Compliance Officer requirements	Upfront	440	360	-	750
	Annual	440	770	1,170	2,770
Group risk management, information sharing, and the Tipping Off offence	Upfront	-	-	-	-
	Annual	-	-	-1,390	-7,500
Customer Due Diligence	Upfront	1,360	4,470	7,690	19,810
	Annual	-20	-310	-720	-43,600
Ongoing CDD	Upfront	-	-	-	-
	Annual	-	-120	-250	-4,110
Transaction Monitoring	Upfront	-	-	-	-
	Annual	-	140	590	9,650
Total	Upfront	8,880	15,380	23,120	60,610
	Annual	420	480	-600	-42,790

Figure 6 below presents the estimated upfront impacts per business of understanding the reforms and updating systems and initial CDD processes to align with the reformed changes, by impacted industry.

⁵⁷ The regulatory burden in this table excludes the expected burden attributable to the reform to the threshold for CDD reporting for gambling service providers. This is due its relevance to one industry rather than all regulated entities.