



AUSTRALIAN HOTELS ASSOCIATION

24 Brisbane Avenue Barton ACT 2600 • PO Box 4286 Manuka ACT 2603 • Australia
email: aha@aha.org.au • Facsimile: (02) 6273 4011 • Telephone: (02) 6273 4007
Web: www.aha.org.au

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Cost Recovery
AUSTRAC
PO Box 5516
WEST CHATSWOOD NSW 1515

Via Email: cost_recovery@austrac.gov.au

Draft Cost Recovery Impact Statement – AHA Response

Overview

The AHA represents the majority of Australian hotels with gaming machines and has made two previous submissions to AUSTRAC on its cost recovery model and fee structure.

We note that since these previous submissions were provided, small hotels operating 15 or fewer gaming machines have been exempted on the basis that compliance is an unreasonable burden on these businesses in relation to the AML risk posed by their operations. While the AHA welcomes this concession, we point out that hotels still subject to cost recovery are suffering from an inequitable impact as a result of AUSTRAC's proposed cost recovery model.

The AHA maintains that all hotels operating gaming machines have a small 'AML footprint' and should be exempt from AUSTRAC's compliance and cost recovery program. The cost recovery model should be refocused so that the base component applies only to businesses that require complex regulation or that generate a material number of transaction reports.

Cost recovery principles

Under the Government's cost recovery guidelines, fees levied on hotels should reflect the cost to AUSTRAC of providing regulatory services. The base fee component is at odds with this approach. The majority of hotels are small, compliant entities which are not required to make any transaction reports and usually only interact with AUSTRAC through the filing of their annual compliance report.

The Government's guidelines also state that cost recovery should not be applied where it is not cost effective. The AHA maintains its position that the burden on AUSTRAC and reporting entities to collect a levy of \$300 is unjustified and not cost effective. Hotels generally bear only the base component of the levy, requiring a complex process for the collection of small amounts per entity. By contrast, most other reporting entities (including remittance providers) will pay additional components of the levy, making for a larger invoice. Hotels are also subject to additional internal compliance costs associated with staff training, completing annual reports monitoring any changes in their requirements for which no compensation is received.

In its initial cost recovery Discussion Paper release in November 2010, AUSTRAC stated that pubs and clubs generate 0.00 per cent of significant transaction reporting by both volume and value. Despite this, pubs and clubs pay approximately \$1.4 million in AUSTRAC fees, or around 4 per cent of the cost recovery. The same Discussion Paper also showed that the base component was expected to generate almost 10 per cent of the total levy, of which 42 per cent would come from pubs and

clubs. The AHA maintains its view that this amounts to inequitable treatment of an industry sector which is comprised almost entirely of small businesses with a relatively small AML footprint.

Hotels are low-risk for AML purposes

The principle of the AHA's submissions to AUSTRAC is that hotels are low-risk from an AML perspective, and therefore the process of cost recovery of the base levy component involves costs that outweigh any benefits involved.

AUSTRAC has gone to some lengths to acknowledge this with its decision to exempt hotels with 15 or fewer gaming machines from regulatory requirements and cost recovery, and also in the fact that it requires relatively little of hotels in comparison to other categories of reporting entities. The hotel business model is also characterised by transactions of relatively low value and the general anonymity of customers.

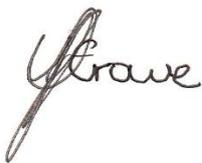
Virtually none of the "indicators of potential money laundering/terrorism financing activity" set out in Appendix A to the *AUSTRAC Typologies and Case Studies Report 2010* are present or even possible in hotels with gaming machines. Gaming machine venues involve one location, one distribution channel, one jurisdiction, generally anonymous customers and small sums of cash. The ability to draw inferences from observations of customer behaviour is extremely limited, as the current debate over problem gambling identification and treatment demonstrates.

While money laundering could occur in hotels (as it could in any situation of consumer spending), the gravity of the conduct is likely to be much lower than with other types of reporting entities and the realistic prospects of detection are negligible. We note that the FATF principles, and the actual regimes in comparable overseas jurisdictions, do not extend to gaming machines outside casinos.

Conclusion

On the basis that the collection of the base component from hotels is not cost effective as required by the Government's guidelines, the AHA submits that the base component fee be abolished and small adjustments be made to other components of the levy to make up the shortfall.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Des Crowe". The signature is fluid and cursive, with a prominent initial 'D'.

Des Crowe
National Chief Executive Officer