

File Name: 2013/40

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### **Discussion paper on possible enhancements to the requirements for customer due diligence (CDD)**

As an overall comment, ASFA is concerned that, while the clarification provided in the paper on what is required is helpful, the thrust of the paper seems to be to increase the obligations required of reporting entities, including superannuation funds. In particular, we are concerned about the superannuation industry's need to devote ever increasing resources to comply with AML/CTF requirements. In a superannuation fund, many of which have tens of thousands of members, it is simply not possible to gain a detailed understanding of each customer, particularly those members of superannuation funds who have been enrolled by their employer.

Given the long-term nature of superannuation where monies are subject to 'preservation' and required to be retained in the system until a 'condition of release' of the benefit is met<sup>1</sup>, it is likely that most superannuation funds have classified a substantial proportion of their members as low risk for AML/CTF purposes, and so are only undertaking basic know your customer (KYC) and ongoing customer due diligence (OCDD) processes. Therefore, we would envisage that enhanced CDD would only apply if an AML/CTF flag has been raised with respect to a specific customer (i.e. superannuation fund member).

As a general principle, ASFA supports the proposed reforms in the discussion paper that reduce the regulatory burden on reporting entities. That is, where the risk is low (eg. low value transactions), the effort and resources required to be expended by reporting entities should be reduced wherever possible – for example, greater ability for reporting entities to use simplified due diligence (SDD) measures in low-risk situations.

ASFA's submission also focussed specific issues or concerns we identified with respect to following potential areas of reform:

- Ownership and control
- Customer acting on behalf of another person
- Enhanced CDD and politically exposed persons
- Purpose of business relationship
- Updating CDD records
- Exemptions for low-risk situations.

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<sup>1</sup> As specified in Schedule 1 of the *Superannuation Industry (Supervision) Regulations 1994*.