

AFTERPAY TOUCH GROUP LIMITED
(ASX: APT)

ASX Announcement

13 June 2019

AUSTRAC Notice

Afterpay Touch Group Limited (“**Afterpay**” or the “**Company**”) is providing an update in relation to key developments regarding AUSTRAC and the Company’s Anti-Money Laundering/Counter Terrorism Financing (AML/CTF) program.

Afterpay’s subsidiary, Afterpay Pty Limited, received a notice from AUSTRAC on the evening of 12 June 2019 requiring it to appoint an external auditor (as authorised by AUSTRAC) to carry out an audit in respect of its AML/CTF compliance (“**Notice**”). APT was informed of AUSTRAC’s intention to issue this Notice after 5.00pm on that day.

The Notice, which has been issued in accordance with section 162(2) of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth), sets out a number of key areas that the external auditor is to focus on over the period from 19 January 2015 to date in preparing an audit report and contains a timeframe within which the audit process is to occur. A final version of the audit report is required to be provided to AUSTRAC within 120 days of the external auditor’s appointment. A copy of the Notice is attached.

Afterpay is committed to meeting the high expectations of our customers and our retail partners. Since establishing the company, this commitment has remained consistent and we have earned the trust of millions of customers that wish to use our service to budget for discrete, small value (\$148 average), non-cash transactions.

We welcome the opportunity to continue to work closely and constructively with AUSTRAC and we will approach this formal process as an opportunity to ensure that our AML/CTF compliance is robust. We are committed to remaining focused on becoming better at what we do.

We have proactively engaged with AUSTRAC on our AML/CTF compliance over a number of months, including recent engagement about our intention to conduct an independent review as part of our AML/CTF program. We recognise that Buy Now Pay Later is a new and maturing sector not only for our customers, but also for regulators, and we will continue to work closely with AUSTRAC to develop a leading compliance regime specific to our business in a transparent and cooperative manner.

Afterpay’s business model has several features that help to control our money laundering and terrorism financing risk, including the implementation of strict spending limits (up to a maximum of \$1,500 per transaction).

Afterpay has undertaken various measures to strengthen Afterpay’s AML/CTF framework including in focus areas identified in the Notice and we are continuing to invest in further AML/CTF compliance enhancements. We do not expect any impact to arise on the way customers and merchants currently experience the Afterpay service.

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Afterpay did not know of AUSTRAC's decision to serve the Notice until it was received. The risk was previously identified. Beyond the update as to AUSTRAC's issue of the Notice, APT does not currently have any material information which is in addition to the disclosures made in the Investor Presentation released to ASX on 11 June 2019 and the risk factor regarding AML/CTF laws.

ENDS

For further information, contact:

Investors:	Company:	Media:
David Hancock Group Head davidh@afterpay.com.au	Christopher Stevens General Counsel & Company Secretary christopher.stevens@afterpay.com.au	Melissa Patch - Cato & Clegg t) 0412 124 195 melissa@catoandclegg.com

About Afterpay Touch Group

Afterpay Touch Group (ATG) is a technology-driven payments company with a mission to make purchasing feel great for a global customer base. ATG comprises the Afterpay and Touch products and businesses. Afterpay is driving retail innovation by allowing leading retailers to offer a 'buy now, receive now, pay later' service that does not require end-customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. Afterpay currently has over 4.3 million active customers and approximately 30,600 active retail merchants on-boarded. Touch comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia and overseas.



NOTICE TO APPOINT AN EXTERNAL AUDITOR TO CONDUCT COMPLIANCE AUDIT

SUBSECTION 162(2) OF THE *ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING ACT 2006*

TO: Afterpay Pty Ltd (ACN 169 342 947) (**Afterpay**)
ACN: 169 342 947
Level 5, 406 Collins Street
Melbourne
VIC 3000

I, Nathan Newman, National Manager, Regulatory Operations of the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), as delegate of the Chief Executive Officer of AUSTRAC (**the AUSTRAC CEO**), have reasonable grounds to suspect that Afterpay is a reporting entity that has contravened and/or is contravening sections 32 and 81 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (**AML/CTF Act**).

Acting under subsection 162(2) of the AML/CTF Act, as delegate of the AUSTRAC CEO, I REQUIRE THAT:

Within 14 days of the date of this Notice, Afterpay must:

1. Identify three or more individuals Afterpay considers appropriate to be authorised as external auditors for the purpose of the audit AUSTRAC is seeking (**Nominated Individuals**)
 - a. In the event that Afterpay has appointed an independent auditor for example, for the purposes of an independent review in accordance with Chapters 8.6 of the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1)* (**AML/CTF Rules**), Afterpay may, instead of identifying three or more individuals for AUSTRAC's consideration, nominate that independent auditor only.
 - b. If item [1.a] applies, AUSTRAC may authorise that independent auditor as an external auditor for the purposes of s 162 of the AML/CTF Act. However, if AUSTRAC finds the independent auditor unsuitable for the purposes of s 162, Afterpay must still identify and provide, in accordance with items [2] and [3] of this notice, the details of three or more individuals for AUSTRAC's consideration within 14 days of being notified by AUSTRAC that it does not consider Afterpay's nominated independent auditor to be suitable.
2. Have each of the Nominated Individuals complete or provide to Afterpay, the following documents in support of their application to be authorised as an external auditor:
 - a. Completed 'Capability statement' (refer to **Annexure A**),
 - b. Signed statutory declaration (refer to **Annexure B**), and
 - c. Resume of the Nominated Individual, which is to provide an overview of the Nominated Individual's employment and education history and any other

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information considered by the Nominated Individual to be relevant to the application

3. Submit the documents listed at items [2.a]-[2.c] above for each Nominated Individual, by email to external_auditors@austrac.gov.au

The AUSTRAC CEO will consider the applications of the Nominated Individuals (or the independent auditor referred to in item [1.a], if applicable) and whether they are appropriate to be authorised to conduct the external audit, and may authorise one of the Nominated Individuals to undertake the external audit. Afterpay and each of the Nominated Individuals will be notified in writing of the AUSTRAC CEO's decision with respect to the authorisation for this external audit.

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Within 14 days of the date AUSTRAC has agreed to a candidate and authorised them under s 164 of the AML/CTF Act Afterpay must:

Engage the agreed candidate as the external auditor to conduct an audit covering the matters specified below including giving a written report (**the audit report**) to Afterpay.

Within 60 days of the external auditor being engaged, Afterpay must:

Provide AUSTRAC with a copy of the written interim audit report setting out the auditor's preliminary findings.

Within 120 days of the external auditor being engaged, Afterpay must:

Provide AUSTRAC with a copy of the final audit report.

The matters to be covered by the audit

(a) The audit should focus particularly on the following areas for the period 19 January 2015 to the date of this Notice:

- 1. Review of governance and oversight (including senior management / board level involvement) leading up to and including Afterpay's decisions regarding:**
 - a. The two separate updates to its AUSTRAC enrolment details whereby changes were made to the designated services it provides;
 - b. The drafting and approval of all versions of its AML/CTF program; and
 - c. Its general compliance with the AML/CTF Act and AML/CTF Rules.
- 2. Identification procedures etc (Part 2 of the AML/CTF Act)**
 - a. Identification procedures for certain low-risk services (Part 2, Division 3 of the AML/CTF Act)
 - i. Verification of the identity of low-risk service customers (Chapter 6, Part 6.4 of the **AML/CTF Rules**)
 - b. Applicable customer identification procedures (**ACIP**) (Part 2, Division 4 of the AML/CTF Act)
 - i. ACIP with respect to individuals, companies, trustees and partnerships (Chapter 4, Parts 4.2, 4.3, 4.4 and 4.5 of the AML/CTF Rules)
 - ii. Verification from documentation and from reliable and independent electronic data (Chapter 4, Parts 4.9 and 4.10 of the AML/CTF Rules)
 - iii. Collection and Verification of Politically Exposed Person information (Chapter 4, Part 4.13 of the AML/CTF Rules)
 - c. Verification of identify of customer etc (Part 2, Division 5 of the AML/CTF Act)
 - i. Verification of identify of customers (Chapter 6, Part 6.1 of the AML/CTF Rules)
 - d. Ongoing customer due diligence (Part 2, Division 6 of the AML/CTF Act)
 - i. Chapter 15 Ongoing Customer Due Diligence
- 3. Suspicious matter reporting obligations (Part 3, Division 2 of the AML/CTF Act)**
 - ii. Reportable details for suspicious matters (Chapter 18 of the AML/CTF Rules)
- 4. Reporting entity's obligations (Part 7, Division 2 of the AML/CTF Act)**
- 5. AML/CTF programs (Part 7, Division 3 of the AML/CTF Act)**
 - iii. Chapter 8 – Part A of a standard AML/CTF program

The audit report must be in a form that:

- (a) Accords with any Australian standard applicable to that kind of audit report, or which in the opinion of the external auditor accords with the closest applicable Australian standard; and
- (b) Accords with the format and style in which the external auditor would prepare a report suitable to annex to an expert witness affidavit the external auditor would make in Federal Court of Australia proceedings.

The audit report must contain details of:

- (a) Any provisions of the AML/CTF Act and/or the AML/CTF Rules which the external auditor concludes Afterpay has not complied with or is not complying with; and
- (b) The facts on which the auditor has relied to conclude any provisions identified in (a) have not been or are not being complied with; and
- (c) Any measures which the external auditor believes Afterpay should implement to ensure that it complies with the AML/CTF Act and the AML/CTF Rules; and
- (d) The capacity of Afterpay to implement the measures set out in (c).

Consequences of not complying with this notice:

Under section 162(7) a person commits an offence if:

- (a) the person is subject to a requirement under section 162(2); and
- (b) the person engages in conduct; and
- (c) the person's conduct breaches the requirement.

Penalty: Imprisonment for 12 months or 60 penalty units, or both.

Section 162(8), which is a civil penalty provision, states that a reporting entity must comply with a requirement under section 162(2).

The audit reports are to be submitted to:

Susan Morcom
PO Box 5516
West Chatswood NSW 1515
Susan.morcom@austrac.gov.au

Dated this 12 day of June 2019



Nathan Newman
National Manager
Regulatory Operations

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