

**AFTERPAY TOUCH GROUP LIMITED  
(ASX: APT)**

**ASX Announcement**

25 November 2019

**AUSTRAC Update - Final Audit Report**

Afterpay Touch Group Limited (ASX: APT) (“**Company**”) confirms that the Final Audit Report (“**Report**”) in respect of Afterpay Pty Ltd (“**Afterpay**”) from external independent auditor Mr Neil Jeans (“**Independent Auditor**”) has been received and provided to AUSTRAC in accordance with the AUSTRAC Notice.

The Independent Auditor’s **covering letter to the Afterpay Board is attached** which provides a summary of the Audit’s findings as well as the Independent Auditor’s full recommendations, which should be read in conjunction with this release.

The Report refers to matters of historic non-compliance by Afterpay and makes recommendations in relation to Afterpay’s ongoing AML/CTF compliance. The Report states that the majority of these matters have been addressed, with the remainder covered in the recommendations. Afterpay fully accepts and is actioning all recommendations from the Independent Auditor.

The Independent Auditor has confirmed that Afterpay’s current program is aligned with the AML/CTF Act and that Afterpay is a low risk business in regards to its vulnerability to be used for money laundering or terrorist financing. The Auditor also notes that Afterpay has a strong compliance culture and recommends Afterpay continues to maintain its current level of Board and senior management oversight of AML/CTF compliance as the business grows.

Afterpay reaffirms that it has not identified any money laundering or terrorism financing activity via our systems to date.

AUSTRAC will now consider the Report and determine whether it will take further action. The Company will continue to fully cooperate with AUSTRAC both in relation to the Report and our AML/CTF compliance more generally.

The Company has benefited from the independent audit process which has enhanced the Board and management’s knowledge and understanding of Afterpay’s AML/CTF compliance generally.

**ENDS**

For further information, contact:

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### **About Afterpay Touch Group**

Afterpay Touch Group (ATG) is a global technology-driven payments company with a mission to be 'the world's most loved way to pay'. ATG comprises the Afterpay and Pay Now (Touch) services 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 customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. As at 31 October 2019, Afterpay has over 6.1 million active customers and nearly 40,000 active merchants on-boarded. Pay Now comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia.



The Board of Directors  
Afterpay Pty Ltd.  
406 Collins Street  
Melbourne  
Victoria  
3000

22<sup>nd</sup> November 2019

**Re: Section 162(2) AML/CTF Act Notice issued by AUSTRAC on 12<sup>th</sup> June 2019.**

Dear Board of Directors,

In accordance with my appointment as your external auditor on 26<sup>th</sup> July 2019, I was required to perform an independent audit (the Audit) of the Notice Matters set out in the Notice issued to Afterpay Pty Ltd under Section 162 of the AML/CTF Act 2006 (The Notice) by the AUSTRAC CEO on 12<sup>th</sup> June 2019.

I am pleased to provide you with a copy of the Final Audit Report (Final Report) affixed to this letter which was completed within the timeframe specified by AUSTRAC in The Notice.

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) and the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (AML/CTF Rules) create a set of technical and complex obligations. As a result, the Final Report accompanying this letter, in and of itself highly complex and technical in nature.

To support your review of the Final Report, this letter formally provides a high-level summary of the Audit findings as well as my observations and recommendations contained within the 300 pages of the Final Report.

In summary the key finding of the Audit are:

- **Governance and Oversight** – over the course of Afterpay’s evolution from a start up to an ASX 100 company, Board and Senior Management oversight and governance has matured significantly. There is now an appropriate level of awareness and engagement.
- **Understanding Risk** – Afterpay is a low risk business in regards to its vulnerability to be used for money laundering or terrorist financing. Notwithstanding this, the risk controls in place must remain commensurate with business growth. Afterpay must enhance its existing controls to identify Politically Exposed Persons (PEPs) and the risk they may pose. It is noted that Afterpay have commenced a project to address this issue.

- **AML/CTF Program** – Afterpay’s AML/CTF Program has also evolved over time and is now appropriately aligned to the AML/CTF Act and Rules. Afterpay commenced to provide designated services from February 2015. The first AML/CTF Program was finalised in June 2016.
- **Key AML/CTF Controls** - Based upon legal advice in 2016, Afterpay initially focused its AML/CTF controls upon merchants. Afterpay’s current AML/CTF controls are more appropriately focused on consumers, given the Designated Service Afterpay provides.

In reaching these findings I have established that Afterpay’s compliance with its AML/CTF obligations was, from the outset and over time, based upon legal advice from top tier Australian law firms.

The initial legal advice concluded that Afterpay’s business model resulted in the provision of the AML/CTF Designated Service – factoring receivables from merchants. I am of the opinion this initial legal advice was incorrect.

The initial legal advice provided to Afterpay did not reflect Afterpay’s business model. Having fully analysed Afterpay’s buy-now pay-later business, it is my opinion that Afterpay have never provided the factoring receivables Designated Service.

The Designated Service being provided by Afterpay is that of loans to consumers (which are designated under the AML/CTF Act) in order to purchase goods from merchants and this activity constitutes the provision of a loan and repayment of a loan.

Based upon the initial legal advice received regarding the Designated Services being provided, with further support from additional legal advice, Afterpay developed its AML/CTF Program.

Despite Afterpay having a compliance-focused culture, the consequence of being provided with incorrect legal advice has resulted in historic non-compliance with the AML/CTF Act and Rules.

During the course of the Audit, I identified that Afterpay’s AML/CTF compliance has evolved and matured over time. Initially iterative in nature, Afterpay’s compliance with the AML/CTF Act and Rules later became more transformative in 2018 and 2019:

- **5<sup>th</sup> February 2015** - Afterpay commenced providing services designated by the AML/CTF Act, providing loans to facilitate consumer purchases from merchants.
- **26<sup>th</sup> January 2016** - Afterpay commenced customer due diligence on merchants and retrospectively applied customer due diligence to the small number of merchants it had existing agreements with.
- **24<sup>th</sup> March 2016** - Nick Molnar, a Director of the company, amended Afterpay’s AUSTRAC enrolment and notified AUSTRAC that Afterpay was providing the Designated Service of factoring receivables to merchants.
- **17<sup>th</sup> June 2016** - Afterpay finalised its first AML/CTF Program.

- **4<sup>th</sup> November 2016** - Afterpay began to collect the date of birth for new consumers when they registered for an account. In July 2018, Afterpay undertook retrospective remedial activity to collect the date of birth for pre-November 2016 consumers.
- **6<sup>th</sup> April 2017** - A second version of Afterpay's AML/CTF Program was formally approved by the Board and Senior Management and became effective on Monday 10<sup>th</sup> April 2017.
- **11<sup>th</sup> May 2018** - Afterpay commenced a project to verify the identity information of consumers. This included a retrospective verification of the identity information of consumers being provided with loans, and from 31<sup>st</sup> July 2018 the verification of the identity of all new consumers.
- **31<sup>st</sup> July 2018** - Afterpay produced a third version of the AML/CTF Program reflecting the consumer identity verification requirements in place.
- **31<sup>st</sup> July 2019** - Afterpay produced a revised version of the AML/CTF Program which included an electronic based verification process for consumers, aligned to the electronic based verification safe harbour procedure, set out in the AML/CTF Rules.
- **13<sup>th</sup> September 2019** - The AML/CTF Program was fully aligned to the requirements of the AML/CTF Rules.

Over the evolution of the business, from a technology start up to ASX 100 company, there has been increasing Board and Senior Management oversight and governance which reflects the growth of the business and the parallel increase in awareness of Afterpay's AML/CTF compliance obligations.

The nature of Afterpay's buy-now pay-later business, the product it offers and how it delivers its services to consumers mitigates the ML/TF risks reasonably faced by the business.

Despite the low ML/TF risk nature of the business, Afterpay recognises that low risk does not equal no risk, and as a result, Afterpay continues to seek to effectively apply its AML/CTF systems and controls. These systems and controls are now appropriate, focused and continue to be adequately resourced as customer numbers and loan volumes increase.

The Notice required the assessment of 12 Notice Matters. As a result of the Audit I have identified 6 recommendations for you to consider:

- **Notice Matter 1c** - Board and Senior Management oversight and governance of compliance with AML/CTF Act and Rules - I recommend that the Board of Afterpay continue to maintain its current level of Board and Senior Management oversight of AML/CTF compliance as the business grows.
- **Notice Matter 2a) i** - Low Risk Designated Services Exemption - It is my opinion that Afterpay's service poses a low ML/TF risk, and I encourage Afterpay to engage AUSTRAC regarding its buy-now pay-later service being formally designated as low ML/TF risk in the AML/CTF Rules.

- **Notice Matter 2b) i** - Compliance with applicable customer identification procedures - Afterpay should engage with AUSTRAC about its historic approach to consumer identity verification which was outside of the safe harbour set out in the AML/CTF Rules.
- **Notice Matter 2b) ii** - Compliance with politically exposed person (PEP) identification and risk management requirements - Afterpay should ensure it complies with all of Parts 4.1.3 and 4.13 of the AML/CTF Rules regarding the identification and management of the risk of politically exposed person (PEPs) using the service.
- **Notice Matter 2d) i** - Compliance with ongoing customer due diligence requirements - Afterpay should review the application of its enhanced customer due diligence procedures to ensure the processes are applied proportionately with regard to the ML/TF risk posed by the consumer.
- **Notice Matter 3) ii** - Suspicious matter reporting content - Afterpay should continue to evolve its procedures to ensure all actionable information or intelligence available to it is included in suspicious matter reports submitted to AUSTRAC.

In light of the rapid growth of Afterpay's business and the ongoing AML/CTF changes and challenges it faced, Afterpay proactively engaged with AUSTRAC in August 2018 and sought further expert legal advice as well as increasing resources in the area of AML/CTF compliance. This included hiring a skilled AML/CTF Compliance Officer in recognition of the need to ensure AML/CTF compliance kept pace with a business which was growing exponentially and could respond to the changes the business was facing.

From the work undertaken as part of the Audit, it is evident that there is a continued commitment by the Board to ensure the business and supporting AML/CTF functions are provided with adequate funding, staff and technical support in order to comply.

Afterpay has a strong compliance culture, supported at the highest levels, which is clearly evident based on one-to-one conversations with Directors, Senior Management and key AML/CTF compliance personnel.

As a result of the increased resource allocation, Afterpay's transaction monitoring system is now effective, efficient and intelligent. Afterpay's work in this space and the results generated contribute to the submission of suspicious matter reports.

Whilst the actual money laundering and terrorism financing risks inherently faced by Afterpay's business are low, Afterpay's increasing transaction volumes and business growth heighten the risk of misuse of Afterpay's buy-now pay-later service. As a result, the Board should maintain a focus on AML/CTF compliance and ensure AML/CTF managers continue to be proactively supported and appropriately equipped to deal with these challenges.

I would like to take this opportunity to thank the Board for their support with the Audit and advise you that your staff I met and worked with during the Audit have been cooperative, professional, and at all times, open and honest. This included being provided with the logistical

support and access to the information and relevant staff we requested, which ensured I was able to complete the Audit within the specified timeframe.

It is my opinion that the Final Report is a fair and accurate reflection of the maturity of Afterpay's AML/CTF compliance and will support Afterpay's ongoing compliance with the AML/CTF Act and Rules.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Neil Jeans", with a stylized flourish extending to the right.

Neil Jeans  
Principal - Initialism Pty Ltd