NEW ZEALAND
RACING BOARD

16 September 2016

AML/CFT Consultation Team
Ministry of Justice
Wellington

By email: aml@justice.govt.nz

NEW ZEALAND RACING BOARD SUBMISSION: MoJ CONSULTATION PAPER ON PHASE TWO of AML/CFT ACT (AUGUST 2016)

The New Zealand Racing Board (NZRB) welcomes the opportunity to submit on phase two of the AML/CFT framework. New Zealand has long enjoyed a reputation as one of the least corrupt countries in the world. Notwithstanding a recent decline, New Zealand continues to rank very highly in Transparency International's Corruption Perception Index. That reputation cannot be taken for granted. For a business such as ours it is incredibly valuable - from our ability to attract international customers and investment in the racing industry, to supporting the wider integrity of New Zealand's sport and racing sectors. As such we are broadly supportive of the Government expanding the scope of existing safeguards against money laundering and financing terrorism. We also acknowledge the need to bring New Zealand into line with the many countries around the world that have already adopted AML/CFT regimes. Further, NZRB agrees with the policy intent to include betting services in the second tranche, in accordance with the current Ministerial exemption.

The following submission is primarily directed toward establishing a framework that is workable for NZRB and effective in meeting the Government's objectives. It seeks to ensure focus is on the areas of highest risk, rather than diverting resource and attention toward low-risk, low-value routine transactions. Essentially, we believe the regime must ensure legitimate and lawful business can continue without undue restraint, while focus is directed toward identifying and stopping actual instances of money laundering. To that end, it is critical the extension of scope is both appropriate and relevant in the New Zealand context, and makes the existing regime more effective.

1. Highlights

A key consideration is ensuring NZRB is able to apply AML/CFT in a manner consistent with its statutory purpose to support New Zealand's domestic racing industry. There are unique structural aspects of the New Zealand betting market which we believe require a tailored approach. Accordingly, NZRB is seeking a small number of accommodations which, when considered in the broader context of New Zealand's betting regime, are appropriate, reasonable and necessary. NZRB would welcome the opportunity to meet and discuss our submission with officials. The following represents the key points:

- The structure of New Zealand's betting market is unique, particularly when compared to other jurisdictions which is relevant to AML/CFT in so far as they support an approach that takes account of New Zealand's specific regulatory context.
- NZRB agrees with the risk-based approach adopted in the current legislation but would like to see the lessons and experience gained from tranche one used to increase the overall understanding in the sector.

- NZRB submits the exclusion of class 4 gaming should be extended to NZRB's class 4 operation.

- Betting in New Zealand has a unique profile from an AML/CFT perspective which requires appropriate consideration:

    - Cash betting is a core part of the betting both historically and operationally primarily due to its ability to support high transaction speed.

    - The majority of customers and transactions will be low value and therefore low risk.

    - The size of any given bet isn't an accurate indicator of AML/CFT risk.

    - The structure of the retail network has significant implications with close to 95% of betting outlets provided under contract.

- We submit the threshold to trigger customer due diligence should be set in line with the Financial Transactions Reporting Act limit of NZD10,000.

    - Further, the threshold should be applied to single transactions, rather than to cumulative transactions in line with the Australian regime.

- We would support the development of an adapted enhanced customer due diligence process to accommodate betting structures such as syndicates or aggregators.

- NZRB supports current provisions relating to monitoring and reporting suspicious transactions, particularly with the emphasis on the time at which the reporting entity "forms its suspicion".

- As the New Zealand regime tightens, offshore entities, particularly those in non-compliant jurisdictions, will become a more attractive option to New Zealand based criminals.

- NZRB is seeking an amendment that ensures NZRB's liability is commensurate with its ability to directly affect specific outcomes.

- NZRB supports continuing the current supervisory model. Whichever model is adopted, we submit that responsibility for supervision of gambling related entities should remain with DIA.

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- Further, we note the effectiveness of tranche two will be dependent in large part on the additional resources available to process the substantial growth in reporting entities and resulting reports. We would welcome an assessment of the ability of the three supervisory regulators and Police to meet the significant demands that will flow from implementing tranche two.

- The current exemption notice does not preclude full consideration of an appropriate implementation timeframe. NZRB submits that a four year implementation timeframe would be appropriate for a business of our size and scale.

2. Overview of the New Zealand Racing Board

The structure of New Zealand's betting market is unique, particularly when compared to other jurisdictions. Unlike most overseas based operators, NZRB is an independent statutory entity governed by the Racing Act 2003. As such, the scope of NZRB's activities are tightly controlled. The business is also subject to a range of public accountability and transparency requirements. These limitations and responsibilities promote integrity and ensure NZRB operates as a trusted and responsible provider of betting services. They are also relevant to AML/CFT in so far as they support an approach that takes account of New Zealand's specific regulatory context, which includes many protections and accountability mechanisms not be present in other jurisdictions.

NZRB is part of a broader and well settled gambling framework underpinned by a number of key principles, including a requirement that benefits from gambling are channelled back to the community. To that end, NZRB makes commission payments to National Sporting Organisations (NSOs) and distributes all net profit back to the racing industry. Over the past five years NZRB has distributed and made commission payments totalling $665.8 million.

As mentioned above, NZRB is subject to a high degree of public transparency and accountability. Through a number of provisions in the Racing Act 2003, NZRB is accountable to the general public, Government and Parliament. These include application of the Official Information Act 1982 to NZRB, the Minister of Racing appointing all seven members of the Board, requirements to produce annual reports and statements of intent which are presented to Parliament, and five-yearly external performance and efficiency audits. Further, NZRB also work with and respond to enquires from a wide range of government agencies (e.g. IRD, SFO, NZ Police) as and when required.

NZRB also has broad statutory obligations and responsibilities to both the racing industry and the broader community, for example the Racing Act 2003 requires NZRB to develop policies "conducive to the overall economic development of the racing industry, and the economic well-being of people who, and organisations which, derive their livelihoods from racing" and to "exhibit a sense of social responsibility by having regard to the interests of the community in which it operates".

NZRB's primary purpose is to promote racing, facilitate betting and maximise profits for the long-term benefit of the racing industry. As such NZRB provides racing and sports betting services to approx 180,000 account-based customers, online, over the phone, oncourse and across 700 retail outlets and touch points (e.g. these range from a stand alone TAB store through to a

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self-service terminal in a pub). The TAB supports betting on more than 68,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on approximately 29,000 domestic and international sporting events. In addition, NZRB also exports over 10,200 New Zealand races a year. We also have betting agreements with a number of NSOs allowing it to take betting on 33 sports.

NZRB has approximately a 15% share of the total gambling market in New Zealand. Operations include betting as well as class 4 gaming. In the FY15 year betting turnover was $2.1bn and gaming turnover was $317 million. Digital betting is our fastest growing channel with compound annual growth rate of 25%. Digital channels represent almost half of total turnover. This compares to retail representing 35%. The remainder of turnover is oncourse, telephony channels and channels dedicated to high value customers.

2. NZRB Ministerial Exemption

As the consultation paper highlights, NZRB was granted a Ministerial exemption in September 2013. The exemption was granted partly based on the explicit agreement from Cabinet that NZRB would be included in the second tranche. It also recognises the continuing application of existing obligations, broader accountability and transparency requirements as well as the transitional nature of the exemption. The exemption expires with the implementation of the second tranche or at 30 June 2018, whichever is earliest. In practice the 30 June 2018 expiration date has proven to be problematic. It has required NZRB to plan for second tranche obligations without knowing the specific nature of how current obligations will be applied. It also fails to accommodate any tranche two changes that address gambling specific issues. Finally, adhering to the June 2018 date would have required NZRB to take a view of the likely impact of the regime at a time when both regulators and tranche one businesses were still clarifying the practical application of the framework. Accordingly, NZRB believes the current exemption notice does not preclude full consideration of an appropriate implementation timeframe. Further comments relating to implementation are made below.

3. Risk-based Approach

NZRB agrees with the risk-based approach adopted in the current legislation. From our perspective, it gives businesses the necessary flexibility to adapt policies and mitigants to the particular circumstances as well as ensuring responses are commensurate with the associated risk. We would like to see this approach continue.

However, the success of this approach is highly dependent on an educative and collaborative approach by regulators, particularly in the early stages of implementation. There is a degree of inherent uncertainty in the risk-based approach surrounding the interpretation of the statutory obligations. This risk can, and should, be adequately covered by clear and practical guidance from the relevant regulator.

We acknowledge the Codes of Practice and Guidelines that have been developed and published by the three supervisors. However, NZRB submits this guidance should be supplemented by advice provided to businesses, without prejudice, and in real-time. Our discussions with tranche one

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businesses revealed a clear need for a more open approach from regulators in terms of providing real-time guidance on how regulators are likely to apply the obligations to specific business activities and products. While we accept there is a limit to the advice regulators can provide, we would like to see the lessons and experience gained from tranche one used to increase the overall understanding in the sector. This will aid in ensuring the scheme is effective and relevant in the New Zealand context.

4. Application to NZRB Activities

Part 3 of the consultation paper raises specific risks associated with the gambling sector and asks which of those activities should be subject to AML/CFT requirements.

The regime puts in place three broad obligations that are most relevant to this submission:

- Assess and manage AML/CFT risk (ss56 - 58)
- Perform customer due diligence where appropriate (ss10 - 31)
- Monitor and report suspicious transactions (s40).

While there are also obligations to retain records and also audit and reporting requirements, this submission focusses on the above three obligations as they represent the key elements of the scheme as well as accounting for the majority of the cost and potential systems changes required.

In determining how AML/CFT should apply to betting, it is critical to understand the nature of the sector and also to note the key differences between betting and the financial sector which constituted the bulk of tranche one. From a customer perspective, betting is a fundamentally different activity to those you would conduct with a financial provider. For example, banking services are a necessity of everyday life, customers want, and need, their banks to know them. Betting, by contrast, is a discretionary recreational pursuit where for many customers and most transactions, there is no commercial need for either the business or the customer to verify identity. While these differences do not remove the AML/CFT risk, they do provide an important context within which the regime should be configured.

The following section provides an overview and comment on each of the three key obligations under AML/CFT. It aims to identify key concerns as well as unique aspects of the betting market which we believe justify a tailored approach to incorporating betting in the regime.

4.1 Proposed Activities: Risk Assessment and Programme

NZRB activities fall into four broad products/services which are provided across a range of channels:

- Bet: Selling bets on racing or sports events to customers;
- Voucher: Selling betting vouchers which can be redeemed for a bet, cash, or deposited into an account;

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- Account: Providing accounts to allow customers to bet online and over the phone;
- Gaming: Providing Class 4 gaming machines in-store.

As noted above, we agree that, in-principle, the first three activities should be captured by the AML/CFT regime. However, we believe there are sufficient grounds for excluding gaming from the risk assessment process, and therefore from the overall scope of AML/CFT.

Under s33 of the Gambling Act 2003, NZRB operates class 4 gaming in 42 venues. From an AML/CFT perspective, these machines are no different to those noted on page 26. In undertaking class 4 activities NZRB is also subject to the maximum jackpot limit as set out in Gambling (Harm Prevention and Minimisation) Regulations 2004. NZRB therefore submits that class 4 gaming should be excluded entirely from the regime due to the low-risk nature of the activity. This exclusion would extend to NZRB's class 4 operation.

Subject to the exclusion outlined above, NZRB submits the requirement to undertake an assessment of the risk of money laundering and the financing of terrorism as set out in s58 should apply. NZRB intends to undertake this assessment shortly to prepare for the implementation of the regime as well as better inform further engagement with officials and Government. Further, NZRB also submits the requirements to establish, implement and maintain an AML/CFT programme and designate an employee as an AML/CFT compliance officer, as set out in s56, should apply. In effect, this would capture the provision of all betting products, across all channels, to all customers.

Notwithstanding the general nature of the provisions above, in setting the risk assessment obligations it is important to have due regard to some of the unique aspects of betting in New Zealand. First, cash betting is a core part of the betting business both historically and operationally. The channels which are dominated by cash - branches, agencies, pubs, clubs and oncourse - are also dominated by customers betting on racing (as opposed to sport). These customers place a premium on the *speed* at which we can sell a bet. The majority of betting on any race occurs approximately 2 minutes before the race commences. This is because, customers have more information available to them in the moments just prior to the race jumping. TV announcers provide information on the form or a horse, or jockey. Customers can also see the size of the betting pool, watch the shifting odds and use this information to make more accurate judgments about the risk/reward return on taking any particular bet. In this environment, transacting at speed is paramount. Cash allows for a faster transaction than eftpos and is therefore still preferred by a large portion of our customers. Cash dominant channels represent approximately 37% of betting turnover. On our busiest day, Melbourne Cup, this increases to over 50%. Preserving the ability of our retail network to adequately respond to our customers demand for fast and efficient service, as well as peak customer demand is critical in ensuring the regime is workable. Further, it is important to recognise that cash plays a more significant role in some channels compared to others. Oncourse betting for example is particularly cash based. While, oncourse betting is a small percentage of overall turnover, it is a critical component of providing betting oncourse as well as the experience of attending a race meeting. Allowing these

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transactions to continue with little to no intervention is a key priority in meeting our customers needs.

Second, the majority of customers and transactions will be low risk. NZRB's customer base across all channels is diverse. The overwhelming majority of customers are small-transaction bettors. For example, the median betting transaction value is $5 across the retail network. These customers and their transactions over the time they have a relationship with NZRB will be low-risk from an AML/CFT perspective irrespective of the channel they bet through.

Third, the size of any given bet isn't an accurate indicator of AML/CFT risk. Notwithstanding, significant occasional cash transactions where there is no context within which to judge the nature of the transaction, the priority must be given to targeting avenues for getting money into and out of the business. NZRB has a small number of high-value bettors. These customers often place large bets. However, single bets in isolation, while they can be remarkable and attract attention, do not deliver any meaningful information. These amounts can be a function of turnover or churn, rather than expenditure. While this customer subset does include individuals with high discretionary income, it is dominated by customers who possess considerable expertise and competence in betting. Unlike other forms of gambling, betting involves an exercise of skill. This is borne out by these customers who tend to form long term relationships with NZRB. For these customers, monitoring customer patterns offers a more meaningful insight, including customer history of deposits and withdraws. These assessments are not straightforward and will require complex monitoring systems and processes.

In considering these points, we believe the following represents a preliminary high level assessment of the "risk of money laundering and the financing of terrorism that [we] may reasonably expect to face in the course of ... business":

- Vouchers: The potential for a customer to use illegally obtained funds to purchase and subsequently redeem high value vouchers.
- Accounts: The potential for an account to be used in a manner inconsistent with legitimate betting activity. For example, depositing and then withdrawing large sums of illegally obtained money, at high or regular frequency, with little or no betting activity.
- Bets:
    - The potential for occasional customers to place large cash bets using illegally obtained funds.
    - The misuse of betting structures (such as syndicates or aggregating services) to obscure the origin of funds, or pool illegitimate funds with legal funds.

In developing policies to respond to these risks, the emphasis for the business will be to ensure efforts are focussed at addressing the risks as described above (in addition to those that will be identified as part of the s58 process) while preserving the ability of our customers to conduct their legitimate activities with minimal disruption or intervention.

4.2 Customer Due Diligence Requirements

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With respect to the customer due diligence requirements, there are two areas of concern for NZRB:

- Setting an appropriate threshold to trigger CDD requirements; and
- Ensuring the customer due diligence requirements can adequately accommodate legitimate betting structures.

First, for the reasons noted above, a key concern for NZRB will be setting an appropriate threshold to trigger the customer due diligence requirements. We submit the threshold to trigger customer due diligence should be set in line with the Financial Transactions Reporting Act limit of NZD10,000. This threshold would apply to occasional customers who purchase vouchers or bets at this level or more. At this level NZRB would largely maintain the ability to transact at the speed and manner which our customers require at the same time as providing the opportunity to identify ML/FT risk.

Further, we submit this threshold should be applied to single transactions, rather than to cumulative transactions in line with the Australian regime. It would not be applied to cumulative transactions over the course of a day, or a race meeting. In practical terms a cumulative threshold would be near impossible to enforce, with no obvious AML/CFT benefit. The issue would be particularly difficult at a racing carnival such as the Auckland Cup, Derby Day, Wellington Cup or any number of popular racing events. These meetings attract large crowds, and large numbers of occasional customers. Tracking individual spend across a race day would be practically impossible if a cumulative approach was taken. For example, a customer attends the NZ Trotting Cup and places a $100 bet on a horse paying $100 to win. The horse wins and pays $10,000. Over the remaining course of the day, the customer then places a series of bets totalling $10,000. Further, these bets are placed with a number of different tote operators located at different areas of the ground. Tracking the individual spend of thousands of occasional customers across a race course would be impractical and deliver no real benefit from an AML/CFT perspective.

We agree with that the commencement of a relationship should trigger the CDD process. In this case, any customers opening an account after the commencement of tranche two would be required to meet the new standard. We also agree with the current settings relating to existing customers, in so far as there is scope to bring customers into the regime gradually. We see substantial benefit from the “material change” test in s14(c)(i), as requiring customers to make significant changes to their behaviour to trigger the new requirements. For the bulk of our customers we would therefore see no need to update their details given the low level of risk associated with their betting (unless there was a “material change”). In the betting context, the most relevant change relates to deposits and withdrawals. We therefore believe thresholds could also be applied to account deposits and withdrawals to trigger an update of customer details.

Second, a priority for NZRB will be ensuring that betting structures such as syndicates or aggregators can be accommodated in the CDD requirements. Under the current requirements we believe it would be difficult for these otherwise legitimate arrangements to satisfy the standard or enhanced requirements. For example, while the current provisions adequately cover legitimate high net worth non-resident individuals they are not suited to betting aggregators. These

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customers operate internationally and are a unique aspect of the international betting markets. These customers are individuals who aggregates bets from a wide range of sources into a number of betting providers. On current requirements, NZRB would be required to "look through" to all end customers, which is an impractical position. We submit that an adapted enhanced customer due diligence process targeted towards the individual could be developed to give regulators sufficient comfort regarding AML/CFT. It is important to note that these customers are located in jurisdictions with well established AML/CFT schemes (e.g. Australia). Given the commercial sensitivity associated with these customers and the related arrangements, we would welcome the opportunity to discuss these issues in person to assist in officials understanding of this specific situation.

4.3 Monitoring and Reporting Suspicious Transactions

As the consultation paper highlights, NZRB is currently subject to broadly similar obligations under the Financial Transactions Reporting Act to report suspicious transactions. Despite this, it is our expectation that the risk assessment and resulting programme will result in a more rigorous approach. Indeed, this is in part the intention behind the AML/CFT reforms. Nevertheless, it is important to note the inherent limitations on NZRB's ability to monitor all transactions in real time. While, online customer activity is growing rapidly and will continue to grow as an overall share of activity, cash transactions and transactions through contracted service providers will continue to constitute substantial parts of NZRB's operation. We therefore support the current provisions in relation to monitoring and reporting suspicious transactions placing the emphasis on the time at which the reporting entity "forms its suspicion". It is our understanding that this provision gives sufficient scope to conduct monitoring across channels and time periods to detect abnormal activity. Significantly, it also allows us to continue a centralised processing approach which has the benefit of delivering a consistent approach across channels and improves NZRB's ability to conduct trend analysis to identify, manage and remedy any process gaps that may exist.

5. Other Issues

5.1 Offshore Gambling Providers and AML

One of the most significant issues facing the racing community is the growth in offshore bookmakers and the impact that is having on New Zealand's domestic industry. The most recent research indicates the number of New Zealanders betting offshore has almost doubled over the past five years. It is estimated 40,000 New Zealanders are betting $58 million with offshore bookmakers. The following table shows the percentage of total betting expenditure going offshore has grown from 10% to 15% over the past five years. From a commercial and industry perspective, this has a significant opportunity cost to the racing industry estimated to be up to $39.5 million. We welcome the work that has been initiated by Hon Nathan Guy to address this issue from a racing industry and commercial perspective.

Expenditure ($m)	2010	2015
NZRB	278	325

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NZers with Offshore Bookmakers	32	58
Total Expenditure	310	383
Offshore % of Total Expenditure	**10%**	**15%**

However, offshore gambling also present issues from an AML/CFT perspective. As the regime tightens in New Zealand, offshore entities, particularly those based in non-compliant jurisdictions, will become a more attractive option to New Zealand based criminals. We acknowledge the inherent difficulties in tackling this issue. However, it is an area officials will need to become familiar with. There is a growing awareness of the wide range of risks associated with international betting markets and, on matters such as AML, there is a clear need for greater international cooperation. We are happy to meet with officials if they are interested in discussing this issue further.

5.2 Betting Services under Contract and Liability

As noted earlier, while NZRB is currently subject to similar obligations under the Financial Transactions Reporting Act, part of the intent of AML/CFT is to establish a more stringent regime, with more comprehensive obligations, stronger enforcement powers and stricter penalties. One of the unique aspects of the betting market in New Zealand is the provision of betting services through contracted providers. NZRB submits that there insufficient provision within the Act to accommodate these longstanding and widespread arrangements. Without such a provision, NZRB would face potential liability without the reasonable means to control the risks. The current standard in the Act would essentially set NZRB up to fail.

All betting through TAB agencies, Pubs, Clubs and on racecourses is provided under contract. Agencies, Pubs, and Clubs represent close to 95% of our retail network. As such, these channels are a critical part of the overall betting market in New Zealand, and they also form a much broader role in the nature of these venues.

AML/CFT places a number of obligations on NZRB, which can be accommodated within contractual requirements between NZRB and contractors. Further, relevant training can be provided to contractors and contractor's staff, internal audits can be conducted, and individual instances of failure to comply with NZRB policy can be addressed as required. However, NZRB's concern is the structural and systemic nature of the services and how that will be treated under the Act. There is a fundamental limitation on NZRB to control the outcomes in these situations, which exposes NZRB to substantial liability under AML/CFT. The limitation relates to NZRB's inability to control the employment process and management of any given employees. While NZRB can take all reasonable steps to ensure the obligations are met, it is unable to exert the same control as we are able to within our Branch network (where all staff are employees of NZRB).

This is particularly concerning within our Pub and Club network, where applicable contractor staff are not primarily employed for the purpose of operating TAB terminals, or dealing with NZRB products. Their primary task and focus on a day-to-day basis will be other tasks associated with

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the operation of their respective Pub/Club site, with the placing of bets, and the establishing of vouchers etc being ancillary to these primary tasks. NZRB is unable to sufficiently address this risk. Even in the event NZRB relied on an indemnity, they would be of little practical use in terms of compensation and would do nothing to restore reputational damage.

Accordingly, we are seeking a safe harbour provision that adequately addresses this arrangement. Under such a provision, NZRB in providing betting through contract services would not be liable for instances of non-compliance, provided NZRB could demonstrate that all reasonable efforts to ensure compliance was possible. Such reasonable steps could include ensuring NZRB has made sufficient training available, had provided adequate resources to allow the appropriate checks to be conducted (e.g. computer systems etc), and had performed the required internal monitoring such as reviewing compliance. Such a provision would not absolve NZRB of responsibility, but it would ensure NZRB's liability is commensurate with its ability to directly affect specific outcomes. We acknowledge this could be in part addressed by relying on the regulator's discretion. However, given the severity of the penalties, we believe legislative consideration and clarity is warranted.

6. Supervision

The consultation paper seeks feedback on the most appropriate supervision model. We support continuing the current model on the grounds it is likely to provide the most effective response, in so far as it will ensure the second tranche benefit from lessons learned and expertise developed through the implementations of tranche one.

Whichever model is adopted, we submit that responsibility for supervision of gambling related entities should remain with DIA. This would include NZRB as the second tranche is implemented. From an NZRB perspective, we have an existing supervisory relationship with DIA in respect of racing and class 4 gambling. Further given DIA has overall policy and regulatory responsibility for gambling matters. As such the Department is best placed to continue in its AML/CFT supervisory capacity for NZRB.

Our primary concern with the current model is to ensure regulators and Police are adequately resourced to cope with the significant increase in workflow that will result from the inclusion of tranche two.

The consultation paper identified a number of benefits that are expected to flow from implementing phase two. These include improved ability to deter and investigate serious crimes, stopping the displacement effect, maintain public and international business confidence in New Zealand's overall financial system. However, achieving these benefits will rely as much on the adequate resourcing of regulators as it will the expanded scope and compliance of businesses.

The effectiveness of tranche two will be dependent in large part on the additional resources government agencies are able to make available to process the substantial growth in reporting entities and resulting reports. In a speech in July 2015 the Minister of Justice noted that 1,760 organisations were included in tranche one. NZRB understands that as many as 5,000 organisations will be included in tranche two. As the Minister highlighted in her speech, the "reporting of suspicious transaction to New Zealand Police's Financial Intelligence Unit has

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increased significantly". The Minister further notes the number of reports had increased to 12,000, up from 3,500 in just one year. Given the number of reporting entities will triple, that will likely have a significant implications for supervising agencies and the Police that do not appear to have been considered.

We would welcome an assessment of the ability of the three supervisory regulators and Police to meet the significant demands that will flow from implementing tranche two. The audit would be primarily directed to ensuring sufficient planning and resources were available to each entity to meet its obligations and would be made publically available. We understand officials and the Government's desire to implement tranche two in a timely fashion to ensure New Zealand is in a good position for the FATF review scheduled for 2019/20. However, we believe it is important to consider whether regulators are also able to meet their obligations. Otherwise the cost, effort and best endeavours of businesses would amount to little.

6.1 Review of other proposals models

For the reason of costs and resourcing, we are also opposed to a single regulator model. However, it is also important to note there are other significant negatives to such an approach. The risk approach requires regulators to understand the sectors they are responsible for, in order to assess whether any given approach is suitable. This would be severely compromised by a single regulator approach. Further, we agree with the points in the discussion document that the creation of such a regulator would be very costly, result in a loss of institutional knowledge, create unnecessary uncertainty for tranche one businesses and push back the implementation of tranche two for a significant period.

We do not have any substantive comments to make on the multiple agencies with self-regulating bodies model.

7. Implementation Period

NZRB strongly disagrees with assertion that tranche two businesses will not need the same length of time to prepare for AML/CFT as tranche one. NZRB submits that a four year implementation timeframe would be appropriate for a business of our size and scale.

The four year timeframe is based on an internal assessment of the project planning, resourcing and investment required to meet the obligations. This assessment has been informed by a number of meetings with a range of tranche one businesses to discuss project timelines and associated costs. Reflecting on this experience, we believe NZRB is of sufficient scale and complexity to justify a four year implementation. The primary reason for a four year timeframe would be to allow adequate time to develop the processes, training and IT systems required to conduct customer due diligence and transaction monitoring at the front line. With over 700 touch points, and a mixed ownership structure, our retail network is more diverse and complex than the major banks. In addition, the change in businesses processes and provision of training to our staff and partners will be a significant project. This is particularly so given it will likely require significant collaboration with organisations such as Hospitality NZ, Clubs NZ and the three racing codes to ensure their members are sufficiently aware of their new obligations. NZRB would expect to be able to

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demonstrate progress across this time period toward a 'go-live' date. Undertaking the risk assessment demonstrates NZRB's intent in this regard.

A four year implementation also allows NZRB to continue a programme of significant strategic transformation that has been well signalled and widely discussed with the racing industry. These projects involve replacing legacy systems over the next four years. These changes underpin a programme to deliver greater returns to the racing industry in accordance with our statutory objective. A shorter AML/CFT timeframe would substantially jeopardise NZRB's ability to fulfill these commitments causing significant detriment to racing industry that rely on funding from NZRB. Conversely, the replacement of legacy systems provides a timely opportunity to incorporate any proposed AML/CFT obligations in a phased and incremental way across four years.

Finally, we note there are a number issues unique to the betting sector and that are therefore central to NZRB's ability to meet its obligations. These issues require the detailed consideration and engagement with officials that the current consultation process affords. In the absence of consideration and legislative or regulatory guidance on these issues, NZRB is limited in its ability to anticipate final obligations. Essentially, these issues go to the core of NZRB's ability to design and implement effective processes and systems. Therefore a four year implementation is reasonable to allow the development as signalled above.

As we undertake our risk assessment and continue to discuss the matter with key stakeholders, we expect we will be in a position to further refine the timeframe. We would welcome the opportunity to further engage with officials on this point at the appropriate time.

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