



Australian Government
Australian Trade and Investment Commission



FINANCIAL TECHNOLOGY (FINTECH)

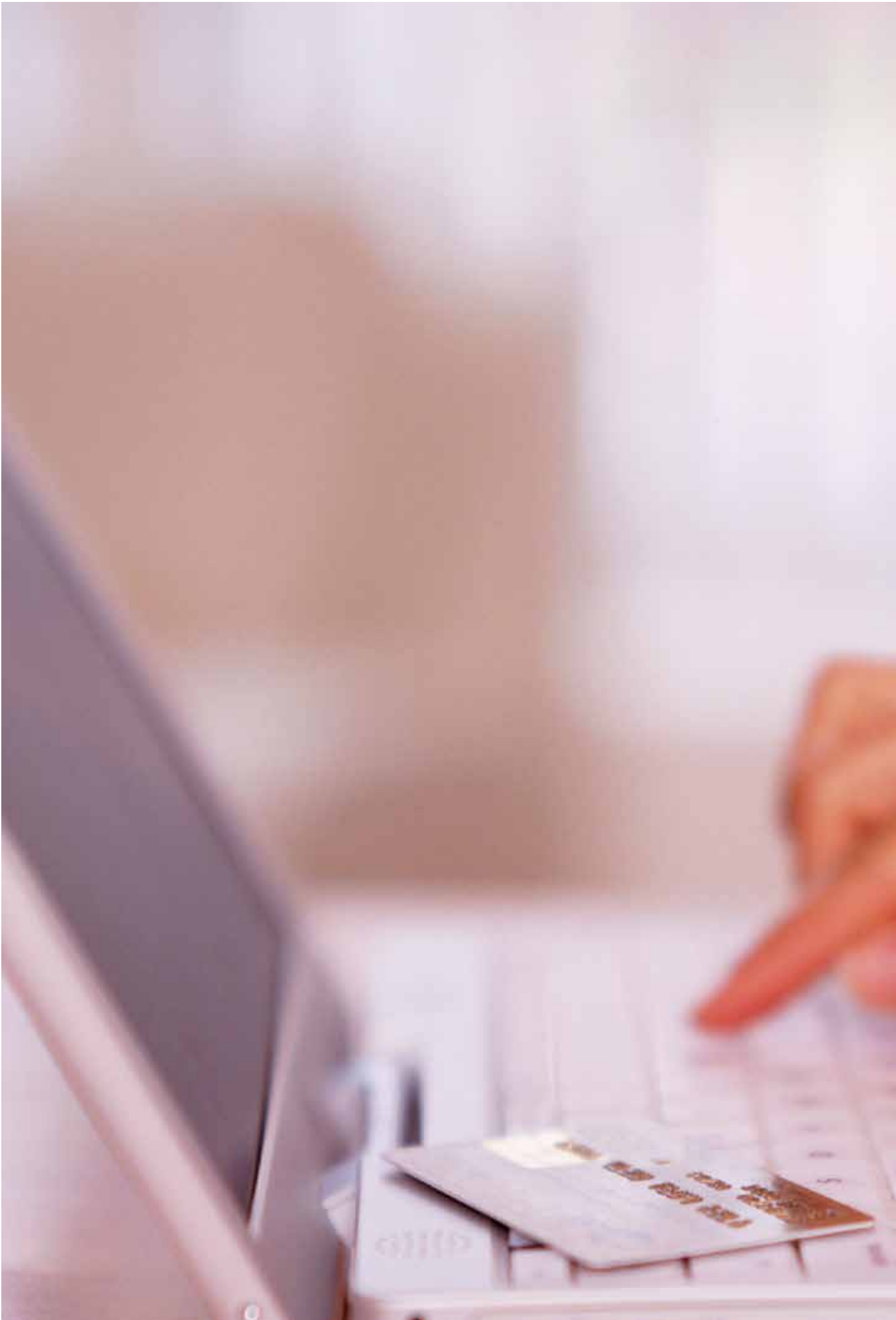
UNITED STATES/
CANADA CLUSTERS





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INTRODUCTION

Financial technology, or FinTech, is revolutionising traditional banking financial services. At the cutting edge of innovation, FinTech is delivering more efficient financial markets and more customer focussed outcomes for consumers. It encompasses technology disruptors like startups and new market entrants, as well as the incumbent firms and institutions that are investing in new technology to maintain their status in the global financial system. The United States (US) is at the forefront of this revolution, led by the cities that foster and fund innovation through key financial market participants (banks, market exchanges, investors, credit service providers and insurers). The US economy is well-positioned as a FinTech leader, given the country's educated workforce and access to capital for entrepreneurs and firms - essential for developing and commercialising new ideas, products and services.

The FinTech ecosystems in the US and Canada are increasingly tapping into Australian Fintech capabilities. In November, The Ontario Securities Commission (OSC) and the Australian Securities and Investments Commission (ASIC) signed a new agreement that will enable fintech companies in Australia and Ontario to draw on support from both financial regulators as they seek to operate in the others' market. In addition, Australian incubators such as Stone & Chalk and Tyro FinTech Hub are establishing their networks in the US, driving multi-national partnerships and collaboration.

Australia is also a rising destination for FinTech investment and innovation from established US companies and startups, particularly FinTech hubs such as Sydney and Melbourne. The US is Australia's largest source of foreign investment (stock), valued at A\$860.3 billion by the end of 2015, 28.4% of the total.¹ Throughout the report you will find a number of top FinTech companies from the US that have established in Australia, including OnDeck, Digital Asset, CA Technologies and Nasdaq. FinTech hubs across the globe are connecting with one another overseas in order to drive the multi-national collaboration that is necessary to modernize the highly global ecosystem of financial services.

THE GLOBAL LANDSCAPE

The FinTech sector is comprised of providers that design and develop financial and insurance products and services for use by business and consumers. Sub-sectors of FinTech broadly include technologies in payments, lending, investment, trading and insurance.

The size of the global FinTech market can be measured on a variety of metrics such as revenue, investment, the number of enterprises or employment. Given the relatively young nature of the sector, the value of investment encompasses the market value for both new and established FinTech companies receiving funding. However, many do not measure success on the value of sales or the size and scale of their business.

Investment in global FinTech has risen an estimated seven-fold in a three year period, to US\$20billion in 2015, according to KPMG and H2 Venture's 2015 'Fintech 100' report.² This includes an astonishing increase of 66% from investment in 2014. In conjunction with CB insights, KPMG has also looked at global investment funding for VC-backed FinTech companies, to measure the level of investment activity in the sector. North America is

the leader, accounting for US\$7.7 billion across 378 deals in 2015, US\$7.3 billion of which was raised in the United States. Globally, funding to VC-backed companies hit an all-time high of US\$13.8 billion, up 106% compared to 2014's total of US\$6.7billion.³ The US is a leader in FinTech investment due to the number of cities with entrepreneurial and venture capital ecosystems, supported by leading financial institutions and universities.

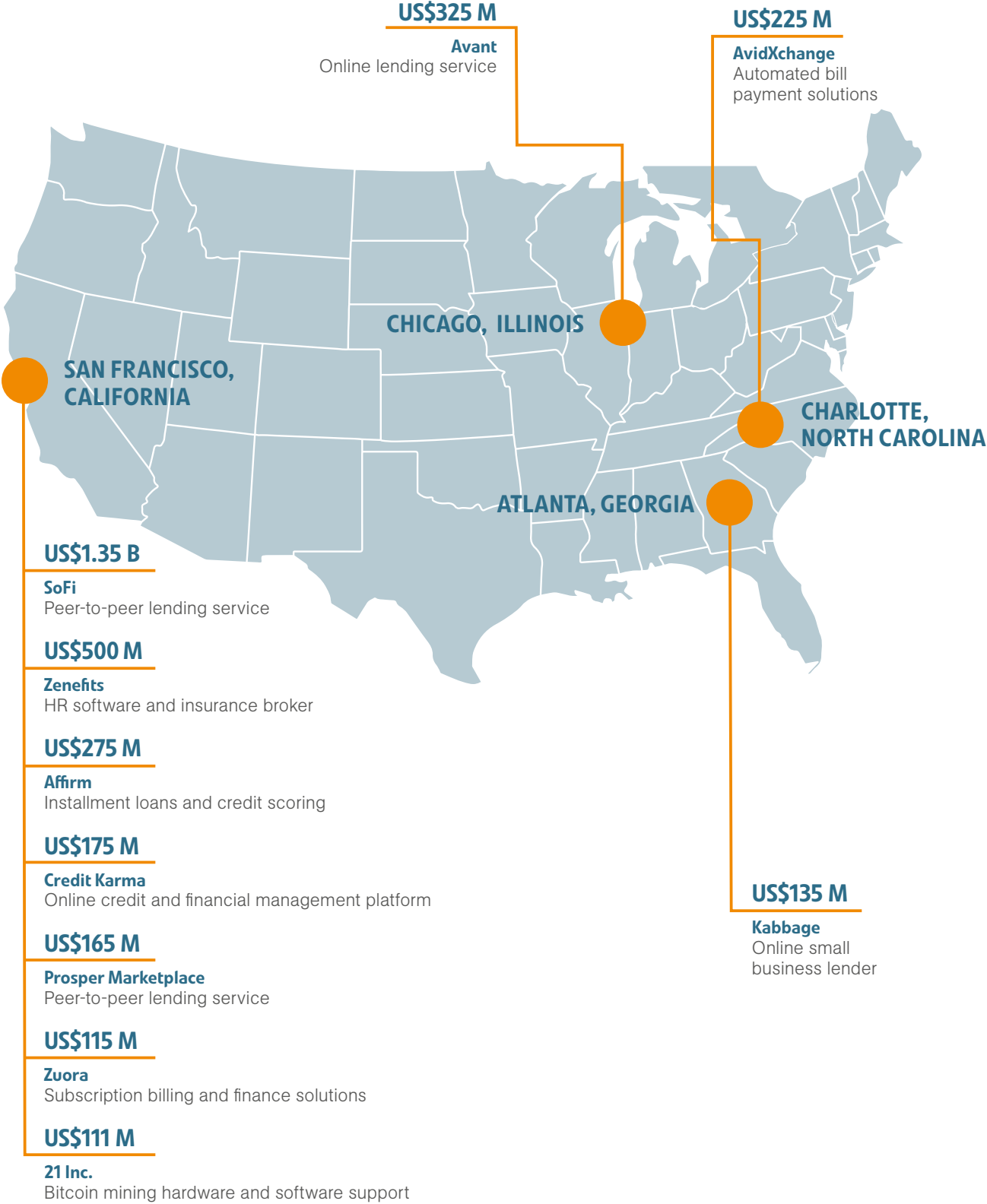
In industries guided by innovation, the rate at which ideas are brought to life and accepted by the market is another key indicator of success for many companies. According to a survey by Ernst & Young, the United States has the second-highest rate of FinTech adoption throughout the globe at 16.5%, preceded by only Hong Kong at 29.1%. Other top markets for FinTech-use according the survey include Singapore, the United Kingdom, Australia and Canada with adoption rates of 14.7%, 14.3%, 13% and 8.2%, respectively.⁴ Some of the world's major financial centres are also becoming known as centres for developing Fintech innovation, such as London and New York, and more recently Sydney.

Financial Services Establishments

	Number of establishments in credit intermediation and related activities (522)*	Number of establishments in securities, commodity contracts, and other financial investments and related activities (523)*	Number of insurance carriers and related activities (524)*
California	18876	12682	18286
New York	9358	8449	9235
Massachusetts	3650	2526	3315
Georgia	6637	2456	5625
Illinois	8617	5184	8215

*2014 US Census North American industries classification codes (NAICS)

The 10 Largest FinTech Rounds of 2015 Totalled Over \$3.3 Billion, Nearly 44% of Funding in North-America



Source: The Pulse of Fintech, 2015 in Review, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) March 9th, 2016.

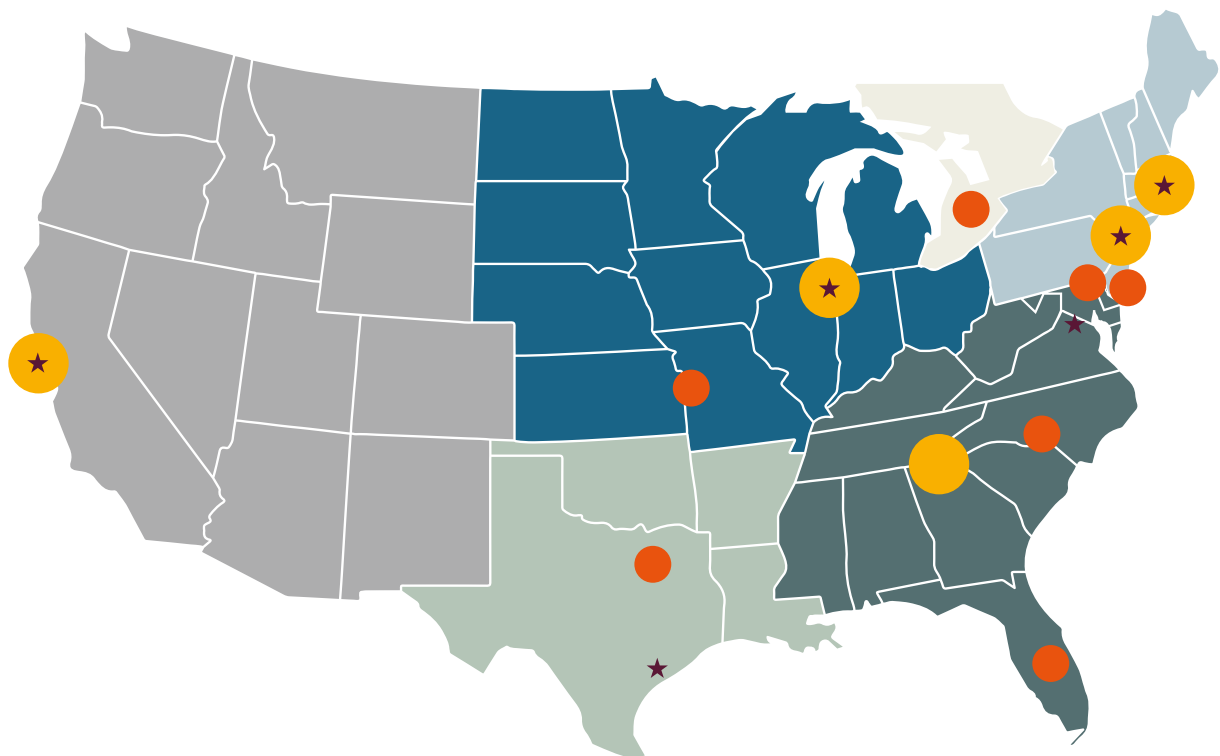
US/CANADA FINANCIAL TECHNOLOGY CLUSTERS


Established Clusters

California
(San Francisco/Palo Alto - Silicon Valley)
New York (New York)
Massachusetts (Boston/Cambridge)
Georgia (Atlanta)
Illinois (Chicago)


Emerging Clusters

Ontario (Toronto, Canada)
New Jersey (Jersey City)
Texas
North Carolina (Charlotte)
Florida
Missouri/Kansas



 Established Clusters

 Emerging Clusters

 Austrade Offices





CALIFORNIA (SAN FRANCISCO/ PALO ALTO-SILICON VALLEY)

Description

The state of California (particularly the cities of Silicon Valley) is a FinTech force on a national and global scale. According to Ernst & Young, California is second only to the UK as the world's leading FinTech ecosystem, due to its mature and interconnected FinTech and venture capital communities.⁶ In the US, California is the leader in venture-backed FinTech investment activity, with nearly \$4.2 billion in total investment activity between the cities of San Francisco, Palo Alto and Los Angeles in 2015.⁷ In 2015, the California FinTech workforce reached 74,000 people.⁸ Some of the major employers within the San Francisco Bay Area include Visa with 3,800 local employees, followed by PayPal with an estimated 3,000 local workers and Intuit with 2,600.⁹ Success stories from FinTech startups in Silicon Valley include two San Francisco-based companies which went public in 2015, LendingClub and Square, and the top three FinTech venture-funding deals from 2015; SoFi, Zenefits, and Affirm.¹⁰ Other major FinTech providers in California recognized by American Banker's FinTech 100 include CoreLogic, Advent Software, Calypso and FICO (Fair Isaac Corporation).¹¹ San Francisco bank Wells Fargo is one of the world's largest banks in market value and assets, and houses an accelerator program for startups to create solutions for financial institutions and enterprise customers.

Australian connections

CoreLogic is a leading provider of information and analytics services in both the United States and Australia, and ranks 16 on the American Banker's FinTech 100 list. Headquartered in Irvine, CoreLogic has operations in Sydney, Adelaide, Brisbane, Melbourne, and Perth. Calypso and FICO both have operations in Sydney as well.

Research initiatives

Japanese conglomerate Hitachi has established a Financial Innovation Laboratory in Santa Clara. The laboratory will function as a FinTech research organization in the Silicon Valley office of Hitachi's Global Center for Social Innovation - North America (CSI-NA), with a focus on research and development of blockchain technology.¹²

Universities with top business programs

Stanford, University of California (UC), Berkeley, UC Los Angeles (UCLA) USC, UC Irvine, UC Davis, Pepperdine University

Key figures

- ▶ FinTech investment activity by city in 2015: San Francisco – 79 Deals, \$3.7 billion; Palo Alto – 12 deals, \$322.9 million; Los Angeles – 8 deals, \$156.5 million.¹³
- ▶ The Bay Area accounts for 34.4% of equity capital invested in online lending.¹⁴
- ▶ California is one of the leading states for the greater financial services and insurance sector, with over 50,000 business establishments participating in these industries employing over 585,000 people in 2014.¹⁵
- ▶ As of September 2016, San Francisco is ranked six on the Global Financial Centres Index by Z/Yen Group.¹⁶

Key organisations

Andreessen Horowitz, Betterment, Charles Schwab, Intuit, LendingClub, PayPal, Robinhood, Sequoia Capital, Stripe, Square, SV Angel, Visa, Wealthfront, Wells Fargo

NEW YORK (NEW YORK)

Description

While most FinTech hubs within the United States can boast strengths in financial services, New York, New York is the country's leading global financial centre serving worldwide capital markets. Unlike Silicon Valley, New York offers close proximity to the wide customer base of major international financial institutions and an existing financial technology workforce, in addition to venture capital resources.¹⁷ The presence of the New York Stock Exchange (NYSE) and the NASDAQ exchange fosters a city-wide ecosystem for financial innovation in markets and commerce, and inspires technologists to create products for financial markets. The creation of the Bloomberg Terminal in 1982 for securities market data storage and sharing is one example of New York-based FinTech innovation that has changed the world.

In 2015 New York ranked second for venture-backed FinTech investment (after California), totalling \$442.4 million across 50 deals.¹⁸ The top three deals were for New York-based Betterment, ShopKeep and CommonBond. Other FinTech success stories include LearnVest, the personal online finance platform for customized financial planning via mobile, Kickstarter, the largest crowd funding platform for creative projects, and OnDeck, a small business peer-to-peer lending platform that analyses social media and other unconventional data-sources to make credit decisions. The major banks are both the consumers and developers of many FinTech applications.

Australian connections

A number of top New York state-based FinTech companies operate in Australia: CA Technologies (Sydney, Canberra, Melbourne, Perth); Genpact (Sydney); Moody's Analytics (Sydney); NICE Actimize (Sydney and Melbourne); and OpenLink (Sydney and Brisbane). In addition, major financial institutions that are known to engage FinTech companies and are active in Australia include Goldman Sachs, J.P. Morgan and Citi.

Research initiatives

Created by Accenture (NYSE: ACN) and the Partnership Fund for New York City in 2010, the FinTech Innovation Lab is a 12 week mentoring program. It enhances FinTech innovation and drives high-tech job growth in New York City by connecting startups with decision makers at some of the world's leading financial institutions.¹⁹

Universities with top business programs

Columbia University, Cornell University, New York University, University of Rochester, CUNY Baruch

Key figures

- › New York accounts for 10.5% of equity funding in online lending FinTech.²⁰
- › In 2014 the state of New York employed over 536,065 across financial and insurance activities.²¹

Key organisations

Betterment, CommonBond, Digital Currency Group, FinTech Collective, Kickstarter, NASDAQ, New York Federal Reserve, Nyca Partners, NYSE

MASSACHUSETTS (BOSTON/CAMBRIDGE)

Description

As a hub for financial services and ICT research, the Boston/Cambridge area has become a hotspot for FinTech innovation from startups and leading financial institutions alike. The financial sector is a critical component of the ecosystem in Massachusetts, supplying companies with needed capital and providing jobs in information technology (IT) roles. In 2014, insurance and financial institutions in Massachusetts contributed \$41.5 billion to Gross State Product, about 10% of the state's total output.²² Many of these firms are located within Boston's financial district, and utilize the talent pool from some of the nation's leading universities situated just across the river in Cambridge. Major local employers in finance include State Street, Fidelity Investments, Liberty Mutual, John Hancock and Putnam Investments.

The convergence of financial firms and universities has created an entrepreneurial community for FinTech innovation in the city of Boston, which is estimated to include more than 100 FinTech startups.²³ Locally sourced venture capital funding has also led to the growing success of the community in recent years. Organisations such as the Boston Financial Services Leadership Council (BFSLC) and Fintech Sandbox aim to connect the different points of the city's FinTech community, and drive partnerships for research and collaboration. The Federal Reserve Bank of Boston is also supportive of FinTech innovation, particularly around cybersecurity.²⁴

Australian connections

State Street Australia was incorporated in NSW in 1985. State Street Australia Limited employs over 440 staff throughout Australia and its head office is located in Sydney.

Research initiatives

In 2015 Fidelity Investments partnered with Thomson Reuters and Amazon.com to launch the FinTech Sandbox based in Boston. The non-profit program provides access to data feeds from partners in the financial industry to participating FinTech startups. Additionally, Thompson Reuters has opened a Data Innovation Lab in Boston, while Fidelity Investments also hosts a technology lab within the Fidelity Center for Applied Technology (FCAT). Specifically for FinTech startups, the Digital Credit Union has an incubator called the DCU Center of Excellence in Financial Services, and MIT FinTech is an initiative of the Martin Trust Center for MIT Entrepreneurship. MIT FinTech fosters entrepreneurial development through community creation, courses, competitions, industry connections and early-stage incubation. Eastern Bank has also launched a FinTech-focused enterprise called Eastern Labs, to incubate new banking-focused technology and startups utilizing the company's banking data.²⁵

Universities with top business programs

Harvard University, Massachusetts Institute of Technology, Babson College, Bentley University, Boston College, Boston University, Brandeis University, Northeastern University, and University of Massachusetts

Key figures

- ▶ State-wide VC funding is estimated to have reached \$7.42 billion in 2015 (28% higher than 2014).²⁶
- ▶ Total investment in FinTech startups founded in Massachusetts since 2010 is now over \$600 million.²⁷
- ▶ The finance sector employs 174,000 jobs — 5.7% of total state employment.²⁸
- ▶ The finance sector represents 20% of Business Taxes in Massachusetts.²⁹
- ▶ In the last two years, mutual fund assets in Massachusetts grew 4% and at the end of the year, Massachusetts accounted for 17% of total US assets.³⁰

Key organisations

Boston Federal Reserve, Boston Technologies, Digital Credit Union, Eastern Bank Corp., Energi Inc., Fidelity Investments, John Hancock Investments, Liberty Mutual, Putnam Investments, State StreetCorp



GEORGIA (ATLANTA)

Description

The FinTech sector within the Atlanta metropolitan area can be considered the backbone of financial services in the United States. Approximately two-thirds of all payment card transactions in the US are processed through Georgia FinTech companies, according to the American Transaction Processors Coalition. Within metro-Atlanta the area known as Transaction Alley is home to three of the top five largest payment processing firms in the United States. This status within the industry has attracted many FinTech startups in payment processing and transaction technology to the Atlanta area including Cardlytics, ControlScan, BitPay and Acculynk. BitPay processes and facilitates bitcoin payments for over 60,000 businesses worldwide.³¹

FinTech Atlanta, the financial technology task force founded in 2015 by the Metro Atlanta Chamber, the Technology Association of Georgia and American Transaction Processors Coalition, has been actively promoting and serving Atlanta's FinTech sector through professional development and government initiatives. Some of Georgia's largest FinTech players are multinational corporations such as First Data, Intercontinental Exchange (ICE), TSYS, NCR and Equifax. Investment in financial innovation has stemmed from these companies, and led to mergers and acquisitions activity and collaborations with smaller players. In 2015, ICE entered into an acquisition deal with Interactive Data Corporation (IDC) for \$5.2 billion, in one of the largest FinTech deals of the year.³²

Australian connections

In February 2016, Atlanta-based Equifax completed its acquisition of Veda Group Limited, the leading provider of credit information and analysis in Australia and New Zealand.

Research initiatives

Georgia Institute of Technology has created a Financial Technology (FinTech) Program at the university's Advanced Technology Development Center (ATDC) to bring together startups, corporations, and investors to accelerate Atlanta's FinTech innovation pipeline. The university also has the Quantitative and Computational Finance (QCF) program which links graduates with members of the FinTech community for jobs and R&D.

Universities with top business programs

Emory University, Georgia Institute of Technology, University of Georgia

Key figures

- According to the Georgia Department of Economic Development, Georgia-based FinTech companies are generating an estimated \$34 billion of annual economic contributions to the state.
- In 2014, there were 6,637 establishments in Georgia involved in credit intermediation and related activities.³³
- FinTech within Georgia employs more than 30,000 professionals statewide, and more than 130,000 globally according to the Technology Association of Georgia (TAG).
- Georgia's FinTech companies process over 118 billion transactions per year (TAG)³⁴

Key organisations

Acculynk, American Transaction Processors Coalition, BitPay, Cardlytics, ControlScan, Elavon, Equifax, FinTech Atlanta, First Data, Fiserv, Global Payments, GreenSky Credit, Intercontinental Exchange (ICE), Kabbage, NCR, Technology Association of Georgia (TAG), TransCentra, TSYS, TTV Capital

ILLINOIS (CHICAGO)

Description

Much like New York, Chicago's financial-hub status can be largely attributed to the presence of a globally influential stock exchange, the Chicago Mercantile Exchange (CME). The CME is the top derivatives exchange in the world, processing 22% of the world's futures trading volume (two-times more than the New York and more than all the European exchanges combined).³⁵ Options Clearing Corp. (OCC) based in Chicago is the world's largest equity derivatives clearing organization, as they are the issuer and registered clearing facility for all US exchange-listed securities options. A substantial investment increase into financial institutions' business and support services has inspired FinTech advancements from local entrepreneurs that can diagnose and solve problems more easily than catch-all solutions from larger firms. Two local FinTech success stories include Chicago-based Avant Credit, an online lending startup that raised \$225 million in one of the largest venture rounds ever for a Chicago startup, and Braintree, a credit card software company that was acquired by eBay in 2013 for \$800 million.

Australian connections

Morningstar Australia is located in Sydney.

Research initiatives

CME Group along with Chicago-based Morningstar Inc. are both data partners with Boston-based FinTech Sandbox, which provides data to FinTech startups at no extra cost for the development of their ideas and products.

Universities with top business programs

University of Chicago, Northwestern University, University of Illinois at Urbana Champlain

Key figures

- › The CME is the top derivatives exchange in the world, processing 22% of the world's futures trading volume
- › The number of establishments in securities, commodity contracts, and other financial investments and related activities throughout Illinois reached 5,184 in 2014.³⁶
- › In 2014 Chicago saw a 142% increase in investment into financial institutions' business and support services

Key organisations

Avant Credit, Braintree, Chicago Mercantile Exchange (CME), Morningstar, Options Clearing Corp. (OCC)



EMERGING CLUSTERS

Ontario, Canada (Toronto)

As one of Canada's largest cities for both technology and financial services, Toronto is a well-known FinTech hub. Second only to California, Ontario is one of the largest IT clusters in North America, with 13,000 technology companies, accounting for 65% of Canada's ICT sector R&D. Toronto itself is one of the largest employers within the financial services sector in Canada, with 350,000 employees. It is estimated that Canada is home to approximately 60,000 FinTech employees, with over 50% located within the Toronto region.³⁸ Toronto's skilled workforce and entrepreneurial spirit can be attributed to the city's university programs that foster technology development and startups by students. In 2014/2015, the University of Toronto worked with 226 student-led startup teams and produced 79 registered companies, the most in the country, through the school's numerous incubator and accelerator programs. These companies created jobs for more than 700 founders and students, attracted more than \$18million in investment, and generated \$2.4million in sales.³⁹

Toronto's profile as a hub for financial services is a major contributor to the success of the city's FinTech sector. The Ontario Securities Commission, a key financial regulator in the Canadian securities industry, has been supportive of emerging financial sectors, such as crowdfunding, through proposed regulation, and has put other FinTech sectors on their watch list as potentially "revolutionary" for business and in need of attention to determine future legislation.⁴⁰ The backing of FinTech by both private and public bodies makes Ontario and Toronto particularly attractive for Fintech investment and collaboration. Key players in Toronto's FinTech scene are FinanceIT, MaRS, MyPlanMap, Outlier Solutions, Sensibill and Shopify.

New Jersey (Jersey City)

While New York City is the FinTech leader in the tri-state area, New Jersey is the top state for financial services and technology companies to do business and has its own FinTech majors that call the state home. Located across the river from Manhattan, Jersey City's prime location beside a global financial centre has given rise to new ideas and technologies that can serve the investment and financial services sectors that dominate the region's economy. Jersey City's waterfront, including the Goldman Sachs tower, is a focal point for the city's financial services sector, and less than 20 minutes by boat to Wall Street and New York's financial district.

In 2014 financial services accounted for almost 8% of New Jersey's gross state product, approximately \$35 billion. The sector accounted for 175,000 workers, about 5.3% of all jobs in New Jersey.⁴¹ What differentiates Jersey City is the large share of employees that serve the securities and investments industries, given the proximity to the financial markets centered around the stock exchanges in Manhattan. Financial innovation has followed this trend, with many local FinTech providers serving these industries as well, such as IPC Technologies and Scivantage (both Jersey City-based companies named in American Banker's Global Fintech 100). Of note, IPC technologies has offices in both Sydney and Melbourne.

Texas

While not a proclaimed FinTech hub, Texas is a major producer and employer within the financial and technology industries. In 2014, the financial services and insurance sector employed 495,507 people across Texas, one of the highest rates in the country.⁴² The Texas financial services workforce is concentrated in sales financing, real estate lending and consumer finance, in contrast to the financial industries of states like New York and Massachusetts, which are much more dependent upon investment activities such as securities brokerage and investment banking.⁴³ This reflects the nature of the FinTech startups in cities such as Austin, and in the Dallas-Fort Worth area, which are typically less investment-focused and more oriented around consumer finance and banking.

Dallas is also home to one of the country's twelve federal reserve banks. The Federal Reserve Bank of Dallas was selected by the US Treasury in 1999 to be the nation's central processor for Treasury coupons and to manage the national Electronic Transfer Accounts (ETAs) program. Millions of federal benefit recipients receiving payments by check, including veterans' benefits, social security, and civilian and military wages are benefits of the program.

In 2005, the Texas Legislature established the \$200million Texas Emerging Technology Fund (TETF) to back the commercialisation of technological innovations across multiple industries, including financial services. The TETF was reauthorised most recently in 2013. \$4million from the TETF has been awarded to two financial services-related startups, DeviceFidelity (Richardson, Texas) and Qcue (Austin, Texas).⁴⁴ Key players in Texas' FinTech scene include Alliance Data, Comerica Bank, Creditcards.com, MoneyGram, Mozido, StoneEagle, Texas Capital Bank and World First.

North Carolina (Charlotte)

The city of Charlotte is a regional hub for financial services and other industries in technology and commerce. More than 290 Fortune 500 firms are represented in the metropolitan area and eight Fortune 500 headquarters call the Charlotte region home, including Bank of America.⁴⁵ As of June 2016, more than 87,000 people within the metropolitan area were employed in financial activities alone, a 3.7% increase from 2015.⁴⁶ Banks are a major source of jobs and investment for the local economy, and are driving Charlotte's profile as a rising destination for FinTech innovation.

The city's incubators and accelerators are bolstering local FinTech startups and entrepreneurs. Queen City Fintech is Charlotte's FinTech-focused accelerator, with a program for companies to work with mentors and established financial services corporations in the Charlotte area. This is part of a larger program called RevTech, which supports early-stage mobile, software and web companies through mentorship and programming. NextBank hosted a large FinTech conference in Charlotte in May 2016, promoting many new startups to partners and investors. Not exclusive to FinTech, startups across North Carolina received \$1.2billion in investment funding in 2015, more than double the amount raised in 2014.⁴⁷ Of note, in 2015 there were 20 Australian-owned companies (in various industries) in Charlotte, employing approximately 780 people.⁴⁸

Florida

In terms of establishments and employees, Florida's financial services sector is among the strongest in the country; in 2014 there were 11,638 establishments involved in credit intermediation and related activities (third highest state in the country), employing 155,237, and nearly 12,499 insurance carriers (also third highest in the country). Additionally, there are four major FinTech companies headquartered in Florida; ACI Worldwide (Naples), Black Knight Financial Services (Jacksonville), FIS (Jacksonville) and ISGN Corporation (Palm Bay). Cities such as Jacksonville and Miami have some startup communities and relevant financial industries that could burgeon into a FinTech hub in the next few years, but more niche investment, partnerships and collaboration will be needed to attract innovation.

Missouri/Kansas

Missouri is another example of a financial services-heavy state that has the ability to become a destination for FinTech innovation and investment. The resources and talent are present in financial services, but the ecosystem is not strong enough to detract FinTech entrepreneurs away from other hubs that provide the financing and communities for quick success. Nonetheless, Missouri has the necessary infrastructure and a few FinTech majors (Bancsource, BATS Global Markets, DST Systems, Jack Henry & Associates) to support new ideas. DST Systems Inc. (Kansas City) has offices in both Sydney and Melbourne.



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METHODOLOGY

In order to determine established and emerging geographic FinTech clusters, numerous variables that can indicate innovation were accounted for, such as the number of financial services establishments, universities with top business programs and the presence of recognised financial technology service providers.

HOW AUSTRADE CAN HELP

If you are an Australian company ready to internationalise your FinTech business, Austrade can assist with market entry and expansion. We provide some tailored services, as well as access to a range of specialists, including:

- › market research
- › channel marketing consultants
- › lead generation agencies
- › legal, accounting, tax and immigration advisory services
- › banking and financial service providers
- › commercial real estate agencies
- › relevant industry network specialists.

If you are looking to invest in Australia, Austrade can assist. We are able to provide the contacts and information you need to establish your business successfully within Australia or to make the right decision in sourcing

Australian products or services. Assistance to potential international investors includes:

- › initial coordination of investment enquiries and assistance
- › information on the Australian business and regulatory environment
- › market intelligence and investment opportunities
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To find out more, contact Austrade in the United States:

Austrade Boston

745 Atlantic Avenue, 8th Floor
Boston MA 02111
Tel: +1 646 344 8111
Email: USA@austrade.gov.au

Austrade Chicago

123 North Wacker Drive Suite 1325
Chicago IL 60606
Tel: +1 312 374 9401
Email: USA@austrade.gov.au

Austrade Houston

3009 Post Oak Blvd Suite 1310
Houston TX 77056
Tel: +1 832 962 8420
Email: USA@austrade.gov.au

Austrade New York

Australian Consulate
150 East 42nd St, 34th Floor
New York NY 10017
Tel: +1 646 344 8111
Email: USA@austrade.gov.au

Austrade San Francisco

575 Market Street Suite 1800
San Francisco CA 94105
Tel: +1 415 644 3620
Email: USA@austrade.gov.au

Austrade Washington DC

Australian Embassy
1601 Massachusetts Ave, NW
Washington DC 20036
Tel: +1 202 454 9744
Email: USA@austrade.gov.au

