



# **NATIONAL RISK ASSESSMENT 2021**

**Cayman Islands**

March 2022

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## ACRONYMS

ACRONYMS	DEFINITION
ACC	Anti-Corruption Commission
ARIN-Carib	Asset Recovery Inter-Agency Network
AMLCO	Anti-Money Laundering Compliance Officer
AMLRs	Anti-Money Laundering Regulations
AMLSG	Anti-Money Laundering Steering Group
AMLU	Anti-Money Laundering Unit
BEC	Business Email Compromise
BO	Beneficial Ownership
CARA	Cayman Attorneys Regulation Authority
CIBFI	Cayman Islands Bureau of Financial Investigations
CBC	Customs and Border Control
CBCRs	Cash Border Currency Reports
CIIPA	Cayman Islands Institute of Professional Accountants
CILPA	Cayman Islands Legal Practitioners Association
CIMA	Cayman Islands Monetary Authority
CIREBA	Cayman Islands Real Estate Brokers Association
CAACI	Civil Aviation Authority of the Cayman Islands
CFATF	Caribbean Financial Action Task Force
CORIS	Cayman Online Registry Information System
DCI	Department of Commerce and Investment
DITC	Department of International Tax Cooperation
DNFBPs	Designated Non-Financial Business and Professions
DPMS	Dealers in Precious Metals and Stones
FCFG	Financial Crimes Focus Group
FCIU	Royal Cayman Islands Police Service -Financial Crimes Investigations Unit
FRA	Financial Reporting Authority
IACC	Inter-Agency Coordination Committee
IMSS	Immigration Management System
IPT	Interim Proactive Taskforce
JIU	Joint Intelligence Unit - RCIPS
MACI	Maritime Authority of the Cayman Islands
ML	Money Laundering
MLA	Mutual Legal Assistance
MLAT	Mutual Legal Assistance Treaty
MLRO	Money Laundering Reporting Officer

NC	National Coordinator
MSB	Money Services Business
NCA	National Crime Agency
NPO	Non-Profit Organisation
ODPP	Office of Director of Public Prosecutions
PF	Proliferation Financing
PIAG	Proliferation Inter-Agency Group
POCA	Proceeds of Crime Act
RCIPS	Royal Cayman Islands Police Service
RFB	Relevant Financial Business
ROC	Registrar of Companies
RP	Registered Persons
SAR	Suspicious Activity Report
SC	Sanctions Coordinator
SHF	Stakeholder's Forum
SEZ	Special Economic Zone
SEZ Authority	SEZ Authority
SEZ Act	Special Economic Zone Act
SIB	Securities and Investment Businesses
SIBA	Securities Investment Business Act
STRIX	CIMA Risk Assessment Tool
TBL	Trade and Business License
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TCSPs	Trust and Corporate Service Providers

# CHAPTER I – **BACKGROUND AND CONTEXT**

## I.1. Introduction

1. As a founding member of the Caribbean Financial Action Task Force (CFATF), the Cayman Islands has a longstanding commitment to AML/CFT and a deeply rooted compliance culture. It underwent four rounds of mutual evaluations: 1995, 2002, 2007, and 2019. The Fourth Round Mutual Evaluation was based on the revised FATF Standards that segregated “technical compliance,” based on the FATF 40 Recommendations, from the 11 Immediate Outcomes (IOs) for “effectiveness”. The revised FATF standards require that countries identify, assess, and understand their ML/TF risks and take measures to mitigate the identified risks.

2. Drawing from its experiences with the first National Risk Assessment (NRA) process in 2015, and a sequence of topical and sectoral risk assessments completed in 2020, the NRA 2021 further deepens and updates Cayman Island’s understanding of its national ML, TF, and PF risks. It provides more granular analysis of how the national risks have evolved from 2015 to 2020 and provides a solid foundation to more effectively allocate resources to combat ML/TF/PF. For financial institutions, designated non-financial businesses and professions (DNFBPs), and virtual asset service providers (VASPs), the outcomes of the NRA 2021 assisted them with assessing their own ML/TF/PF risks.

### I.1.a. *Risk Assessment Methodology*

3. The NRA 2021 was carried out between January and September 2021 by 15 working groups under the stewardship of the Anti-Money Laundering Steering Group (AMLSG) and the National Coordination Team, with the support of an international consulting firm. The NRA 2021 is structured into five main Chapters, which separately analyze relevant threats, inherent risks, and strength of controls. The five Chapters include:

- Background and Context
- Money Laundering Risks
- Terrorism Financing Risks
- Proliferation Financing Risks
- Overarching Risk Topics

4. The goal of the NRA 2021 is threefold: first, to consolidate the risk understanding gained through the conduct of various sectoral and topical risks and to translate the findings from those assessments into a national risk understanding. Examples of such assessments are the various sectoral risk assessments carried out by the Cayman Islands Monetary Authority (CIMA) and those conducted for legal entities, terrorism financing, and the SEZ. Second, the NRA aims to further deepen and advance the Cayman Islands’ risk understanding in those areas that have not been subjected to a topical or focused risk assessment since 2015, or that have been recently added to the international agenda, which include, for example, VASPs, proliferation financing, and COVID-19 related risks. Third, the NRA 2021 seeks to update the Cayman Islands’ national risk understanding in

those areas where more information is now available, such as in the case of legal entities and registered persons under the Securities and Investment Businesses Act (SIBs / RPs).

5. To achieve these objectives, 15 working groups were established to each focus on delivering an in-depth analysis of sectoral or topically focused risks. Multiple authorities were represented in each working group, 12 of which also had private sector members. The working groups comprised the following:

- WG National Threats
- WG National Vulnerabilities
- WG Banking Sector
- WG Securities Sector
- WG Investments Sector
- WG Insurance Sector
- WG TCSPs
- WG Real Estate; Dealers of Precious Metals and Stones
- WG Lawyers
- WG Accountants
- WG NPOs
- WG Virtual Assets
- WG Other Entities and Institutions
- WG Legal Persons and Legal Arrangements
- WG Proliferation Financing

6. The working groups determined the overall structure of the NRA, and for each section, identified the various data sources and information that needed to be gathered and analyzed. The Data Source Catalogue that resulted from this exercise can be found in Annex 1 of this NRA; it demonstrates the depth and breadth of the detailed data that was reviewed. The NRA 2021 draws from existing sectoral and topical risk assessments that were carried out at different times between 2017 and 2021, therefore, the period covered by different data sets may vary. The additional supervisory coverage with detailed supervisory data and risk information meant that much more data was available than for the previous NRA.

7. The working groups then drafted the section of the NRA 2021 for which they were responsible and determined the various ratings that were to be assigned for relevant threats, inherent risks, and mitigating measures. For most chapters of the NRA 2021, the evaluation is a summary of more comprehensive sectoral or national risk assessments. The NRA 2021 is largely based upon comprehensive, evidence and data-based documents that are not publicly available.

8. A four-point rating scale was used to determine inherent risk (high, medium-high, medium-low, and low) and ensure a sufficiently nuanced result. Similarly, a four-point rating scale of strong, good, satisfactory, and weak was used to rate the strength of the mitigating measures in place.

9. Each sectoral risk assessment is further divided into an analysis of various sub-sectors and examines four risk categories: nature, size, and complexity risks; customer risks; product/service/transaction risks; and delivery channel risks.

10. Geographic risks were analyzed as a horizontal aspect of all named risk categories (rather than as a separate fifth category), examining linkages between customers, products/services/transactions, and delivery channels to high-risk jurisdictions. Funds flow analysis based on geographic exposure, both on the inflows and outflows, was carried out as part of the deposit-taking institution's sector risk assessment. High-risk jurisdictions are defined as the 41 countries on the FATF list of high-risk and other monitored jurisdictions,<sup>1</sup> countries on the Global Terrorism Index 2018 issued by the Institute for Economics and Peace, countries against which the United Nations has imposed sanctions<sup>2</sup>, and countries ranked poorly on the Basel AML Index issued by the Basel Institute on Governance<sup>3</sup>. (Remaining countries were referred to as 'lower risk').

11. The NRA 2021 demonstrates a comprehensive and detailed understanding of the ML/TF/PF risks that the jurisdiction faces, an understanding that is largely based on factual data and evidence. The NRA report enables the Cayman Islands' competent authorities, law enforcement agencies, and self-regulatory bodies to allocate their resources in line with the most prevalent risks, considering the materiality of the sectors affected by those risks.

#### *I.1.b. Cayman Islands Historical Context*

12. The Cayman Islands is a British Overseas Territory, located in the western Caribbean, roughly 100 miles south of Cuba, 180 miles northwest of Jamaica, and 449 miles south of Miami, Florida. Cayman Islands' territory covers 102 square miles and comprises three islands: Grand Cayman, Cayman Brac, and Little Cayman. The Cayman Islands received its first written constitution in 1959 and chose to remain a British territory when Jamaica became independent in 1962. As a British Overseas Territory, the Cayman Islands financial market transformed gradually from one focused on seafarers' remittances and subsistence agriculture in the 1960s to an international financial centre (IFC) by 1980. From the very onset, local authorities maintained fiscal prudence that is still evident today. Political stability coupled with the absence of direct taxes set the ideal conditions for the growth of the Cayman Islands as an IFC. Barclays Bank was first established on Grand Cayman in 1953 to process seamen remittances and service local merchants. Scotiabank established itself in the Islands in 1963, followed by the Canadian Imperial Bank of Commerce (CIBC) the following year. Key legal acts, such as the Companies Act of 1960, the Trust Act of 1964, and the Banking and Trust Companies Regulations Act 1966, all aimed to attract foreign investments and promote the Cayman Islands as an IFC. The development of modern telecommunication systems in 1965 further sped up the globalization of the Cayman Islands financial service industry.

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<sup>1</sup> <http://www.fatf-gafi.org/countries/#high-risk>.

<sup>2</sup> <https://www.un.org/securitycouncil/sanctions/information>

<sup>3</sup> <https://www.baselgovernance.org/basel-aml-index/public-ranking>



13. In the 1960s, a range of capital control measures world was introduced worldwide that further increased the Cayman Islands' attractiveness as a financial centre. One of these measures included the USA's Interest Equalization Tax in 1963, which made it less profitable for US investors to invest in foreign securities and resulted in American banks establishing branches in the Cayman Islands so that they could accept US dollars and lend overseas without being subject to restrictions. Other measures which further fostered the development of Cayman Islands IFC were the (1) Federal Reserve requirements under the Voluntary Foreign Credit Restraint Program 1965, which limited the size of loans extended within the US but did not apply to foreign subsidiaries; and (2) Regulation Q, which placed a ceiling on interest rates paid in deposits (including money market funds) within the United States and resulted in phenomenal growth in banking in the 1970s through US branches and subsidiaries, mainly on account of the Eurodollar (US dollar-denominated deposits at non-US banks or the overseas branches of US banks) market.

14. The Confidential Relationships (Preservation) Act 1976<sup>4</sup> codified the duty of confidentiality of financial institutions and professionals vis-à-vis their clients and marked the onset of diversification of the financial services industry in the Cayman Islands. In 1984, the Narcotics Drugs (Evidence) (United States of America) Act came into effect, which was repealed and replaced by the Mutual Legal Assistance Treaty among the United States, the United Kingdom, and the Cayman Islands in 1986. This treaty became the model for cooperation between the US and other Caribbean jurisdictions on criminal matters. The Mutual Funds Act in 1993 further contributed to the Cayman Islands' attractiveness to sophisticated and high net worth investors. The Companies Management Act 1999 and the Securities and Investment Business Act 2001 followed.

#### *1.1.c. Cayman Islands People, Society, and Government*

15. The population of the Cayman Islands was 65,786 as of December 2020, with roughly 96 % of the population residing in Grand Cayman. Caymanians make up around 57.5% of the population, with non-Caymanians making up 33.6 %, and another 8.9 % having acquired permanent residence. Protestants make up just over two-thirds of the population by religious affiliation, followed by Roman Catholic (14.1%) and Jehovah's Witness (1.1 %).

16. The Cayman Islands' Head of State is Her Majesty, Queen Elizabeth II, represented by the Governor. The executive branch of government consists of the Governor, the Deputy Governor, the Premier, seven Ministers, and the Attorney General. The legislative arm of government (Parliament) consists of 19 elected members and 2 non-voting ex-officio members, namely the Deputy Governor and the Attorney General. As a self-governing British Overseas Territory, the Cayman Islands is responsible for its internal affairs and the UK is responsible for the Cayman Islands' defence and external affairs. Important bilateral issues are usually resolved by negotiations among the UK, Cayman Islands, and foreign governments.

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<sup>4</sup> Later repealed in 2016.

17. The legal system in the Cayman Islands is based on British common law and locally enacted statutes. Local laws are passed as Acts of Parliament and assented to by the Governor. Subordinate legislation (regulations, orders, rules) is usually made by the Governor, acting on the advice of the Cabinet. As a British Overseas Territory, UK statutes have also been extended to the Cayman Islands through Orders-in-Council. United Nations Conventions are extended to the Cayman Islands through the United Kingdom. The most recent extensions were the United Nations Convention Against Corruption (UNAC), extended to the Islands on 14<sup>th</sup> December 2020; and the United Nations Convention against Terrorist Financing extended on 12<sup>th</sup> August 2021.

18. The Judiciary consists of three levels: the Summary Court, the Grand Court and the Court of Appeal. The court where final appeals are heard is the Judicial Committee of the Privy Council in the United Kingdom. In sum, all the key structural elements required for an effective AML/CFT system are present in the country.

#### *I.1.d. Cayman Islands Economy*

19. In 2019, the real nominal Gross Domestic Product (GDP) of the Cayman Islands was estimated at \$4.5 billion, with real economic growth of 3.81% and nominal GDP per capita at \$72,685. In comparison, provisional figures for 2020 saw COVID-19-induced nominal GDP decline to \$4.2 billion, a real economic contraction of 6.7%, and a per capita GDP of \$68,674.

20. The largest contributor to the Cayman Islands' GDP is the financial services sector, which accounts for roughly 40.5 % of the GDP, inclusive of accounting and legal services. The second-largest contributor was tourism, with a 15 % contribution to the GDP, resulting from the Cayman Islands recording just over 502,700 stayover visitors and 1.8 million cruise ship arrivals in 2020. Merchandise imports amounted to \$1.2 billion in 2019 while exports amounted to \$41.5 million, consisting largely of re-exports. With no direct corporate or income tax, government revenues of \$860 million in 2019 included \$273.8 million (31.8%) from financial services and \$193.1 million (22.5%) from import duties.

21. Of the 49,089 persons in the labour force (employed and unemployed) in 2019, 49.1% had attained a secondary level education, 14.8% a post-secondary education, and 19.3% had attained a college/university education. Caymanians made up 48.4% of the labour force, non-Caymanians comprised 43.6% and permanent residents with the right to work made up 8.0%. Employment by industry included construction (12.2%); wholesale and retail trade (11.9%); professional, scientific, and technical activities – largely consisting of lawyers and accountants tied to financial services (8.9%); financial and insurance activities (8.8%); public administration and defence (7.9%); and activities of households as employers (6.9%).

22. As with the rest of the world, COVID-19 had a significant economic impact on the Cayman Islands, resulting in a 6.7% decline in real GDP, and an increase in unemployment from 3.5% in 2019 to 5.21% in 2020. The jurisdiction, nonetheless, took stringent public health measures to control community transmission of the virus.

### *I.1.e. Materiality of Regulated Business and Funds*

23. Funds are the most material part of the Cayman Islands' financial sector and include investment, mutual and private funds. Indeed, the Cayman Islands is the second-largest centre for portfolio investments after the United States and just ahead of Luxembourg, with a strong focus on large institutional investors. According to the International Monetary Fund, Derived Portfolio Liabilities (derived from creditor data) increased from just US\$0.9 trillion in December 2004 to US\$4.6 trillion in June 2020. Three jurisdictions represent 85.1% of the source of these funds, namely the United States (45.2%), Japan (21.1%), and Hong Kong (China P.R.) (14.7%). Hedge funds represent the majority of portfolio liabilities, with about 85% of the world's hedge funds domiciled in the Cayman Islands, although not all Cayman Islands funds are managed or administered in the jurisdiction. The Cayman Islands has taken steps to regulate private funds by registration through CIMA. As a conduit for global capital, the Cayman Islands is now the third-largest foreign holder of US securities after Japan and the United Kingdom. As funds themselves do not fall within the definition of RFB requiring supervision per the FATF standards, they are not included in the sectoral assessments, but an overview is presented in the chapter on legal persons and arrangements.

#### *Financial Institutions, Mutual Fund Administrators and TCSPs*

24. The Securities sector is of material importance to the Cayman Islands given the close connection to funds. Securities and Investment Businesses (SIBs) have in total US\$1.3 trillion of assets under management. SIB registered persons (SIB-RPs) represent US\$1.27 trillion, while SIBA licensees have US\$16.9 billion in assets under management.

25. Mutual Fund Administrators are also of material importance, given that they service roughly 16,000 funds, with US\$2.1 trillion under administration. Around 60 % of these are private funds.

26. The TCSP sector is also material to the jurisdiction. As an IFC, the Cayman Islands is also a conduit for direct investment inflows and outflows through company service providers (CSPs), which amounted to US\$876.1 billion and US\$890.6 billion respectively in 2019. At the end of 2020, TCSPs in the Cayman Islands shared in the management of approximately US\$694 billion across the various financial sectors.

27. The Banking sector is also material, although the significance of the Cayman Islands as a banking centre has somewhat decreased over the last decade. In 2007 at the onset of the global financial crisis, external banking assets in the Cayman Islands were recorded at US\$1.8 trillion, making the jurisdiction the 6<sup>th</sup>/5<sup>th</sup> largest banking centre in the world based on cross-border assets/liabilities. At the end of 2020, external banking assets had shrunk to US\$579 billion, resulting in the jurisdictions being ranked the 16<sup>th</sup> largest banking centre in international assets and 14<sup>th</sup> in international liabilities. The drivers for banks' decision to reduce their operations in the Cayman Islands were increased regulatory and operational costs coupled with a repeal of Regulation Q,<sup>5</sup> and

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<sup>5</sup> <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20110714a.htm>; <https://www.govinfo.gov/content/pkg/FR-2011-07-18/pdf/2011-17886.pdf>

the passage of the Dodd-Frank Wall Street Reform and the Consumer Protection Act of 2010<sup>6</sup>, which prohibit banks from making certain types of investments.

28. Insurance is also an important sector to the Cayman Islands. The jurisdiction is the second-largest Captive Insurance domicile in the world, with gross premiums amounting to US\$19.0 billion. However, only a small proportion of this sector (5%) conducts RFB per the FATF recommendations.

29. Less material to the Cayman Islands are VASPs. The Virtual Asset (Service Providers) Act was passed in May 2020, with CIMA designated as the supervisor. At the end of 2020, CIMA had received 20 registration applications from VASPs. They held customer assets of U\$4.1 billion, with daily transaction volumes of approximately U\$5.6 billion, which is small compared to the securities and banking sectors.

30. As can be seen in Table 1 below, the Cayman Islands is a highly diversified IFC.

Table 1: Sectors and Entities Supervised by CIMA December 2020

<b>Sector and Entity Type</b>	<b>No. of Entities</b>
<b>Banks</b>	110
<b>Category A</b>	9
<b>Category B</b>	101
<b>Nominee Trust</b>	20
<b>Controlled Subsidiaries<sup>7</sup></b>	7
<b>Money Services Providers</b>	5
<b>Building Societies, Cooperative Societies, Development Banks</b>	4
<b>Mutual Funds</b>	11,896
<b>Registered</b>	7,972
<b>Master</b>	2,988
<b>Administered</b>	294
<b>Limited Investor</b>	583
<b>Licensed</b>	59
<b>Private Funds</b>	12,695
<b>Mutual Fund Administrators</b>	75
<b>Securities Investment Business Act (SIBA) Licensees</b>	35
<b>Registered Persons under SIBA</b>	1,650

<sup>6</sup> Regulation Q was promulgated to implement the statutory prohibition against payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System set forth in Section 19(i) of the Federal Reserve Act ("Act"). Section 627 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") repeals Section 19(i) of the Federal Reserve Act (Regulation Q) effective July 21, 2011

<sup>7</sup> Under the Bank and Trust Act, a controlled subsidiary means a trust company — (a) that is incorporated in the Islands; (b) that is a wholly-owned subsidiary of a licensee under section 6(5)(c); and (c) whose directors and senior officers are directors and senior officers of the licensee or are otherwise persons approved by the Authority as fit and proper persons to be directors and senior officers of licensees holding licences for trust business under section 6(5).

<b>Trust Companies</b>	147
<b>Registered Private Trust Companies</b>	145
<b>Registered Controlled Subsidiaries of Trust Companies</b>	44
<b>Company Managers</b>	120
<b>Corporate Services Providers</b>	24
<b>Insurance Companies</b>	679
<b>Class A</b>	27
<b>Class B</b>	624
<b>Class C</b>	23
<b>Class D</b>	5
<b>Insurance Managers</b>	23
<b>Insurance Brokers</b>	23
<b>Insurance Agents</b>	46
<b>Virtual Asset Service Providers (Applications received)</b>	20

31. Table 2 below shows the number of licensed DNFBPs conducting RFB as of December 2020, broken down by the different categories and indicating the supervisor that has been appointed by Cabinet under section 4(9) of POCA for each category.

32. CIMA is the integrated supervisor for financial services. DNFBP supervisors include the Cayman Attorneys Regulation Authority (CARA) for law firms and sole practitioners conducting RFB; the Cayman Islands Institute of Professional Accountants (CIIPA) for accounting firms and sole practitioners conducting RFB; and the Department of Commerce and Investment (DCI) for real estate agents, real estate developers, and dealers in precious metals and precious stones (DPMS).

33. The greatest volume of business carried on by accounting firms is auditing which is not an RFB. The primary services of supervised accounting firms that carry out RFB are liquidation services, handling transactions for clients and a limited amount of business advisory. Supervised law firms provide a wide variety of legal services, including advice on financial structures and arrangements. Many law firms or sole practitioners also provide professional services via an affiliated entity such as corporate services, corporate governance services, fiduciary services, and regulatory compliance services. Real estate sales in the Cayman Islands peaked at \$855.8 million in 2018 and declined to \$770.6 million in 2020. With no annual property taxes and no restrictions on foreign ownership, the real estate market attracts foreign buyers mainly from North America.

Table 2: Sectors and Entities Supervised by Other Regulators for AML/CFT – Dec 2020

Sector and Entity Type	No. of Entities	Supervisor
Law Firms	58	CARA
Accounting Firms	27	CIIPA
Real Estate Agents & Brokers	164	DCI
Real Estate Developers	26	DCI
Dealers in Precious Metals & Precious Stones	26	DCI

## 1.2. Cayman Islands AML/CFT/CPF Legal and Institutional Framework

### 1.2.a. Legal Framework

#### *Core Legislation*

34. **Proceeds of Crime Act (2020 Revision) (POCA)** – This Act takes an “all-crimes” approach to money laundering in line with the Palermo Convention, provides for the confiscation of proceeds of criminal conduct and the recovery of the proceeds of unlawful conduct in civil courts; and confers investigative powers to the Royal Cayman Islands Police Service (RCIPS), as well as the Anti-Corruption Commission (ACC) and the Customs and Border Control (CBC). Additionally, the Act establishes the Financial Reporting Authority (FRA) as the unit responsible for receiving, analysing and distributing disclosures relating to the proceeds of criminal conduct and information required by any law to counter money laundering.

35. **Anti-Money Laundering Regulations (2020 Revision)** –The Regulations set out the obligations to establish anti-money laundering systems by persons conducting relevant financial business (RFB). The regulations require that a person carrying out RFB conducts risk assessment on its customers, geographical reach, and transactions, among other factors. The Regulations also give AML/CFT/CPF powers to the DNFBP supervisors. Other related regulations include the **Anti-Money Laundering (Money Services Business Threshold Reporting) Regulations, 2020**. It is anticipated that the **Anti-Money Laundering (Class A and Class Bank Threshold Reporting) Regulations, 2021** will come into effect in January 2022.

36. **Terrorism Act (2018 Revision)** – This Act addresses terrorism and terrorist financing, including the use and possession of terrorist property and arranging for property to be used for terrorist purposes. The Act also provides for the forfeiture of any property which, among other things, was in the possession of an offender at the time of the commission of the offence and the freezing of terrorist funds.

37. **Non-Profit Organisations Act (2020 Revision) (NPOA)** – This Act obliges non-profit organisations (NPOs) to register with the Registrar of NPOs for risk-based oversight of the sector concerning terrorism financing.

38. **Proliferation Financing (Prohibition) Act (2017 Revision)** – This Act criminalises development or production, or the facilitation of the development of production, of nuclear, radiological, biological or chemical weapons or systems for their delivery. It provides for targeted financial sanctions to be imposed on persons designated as carrying out activities that relate to the financing of weapons of mass destruction.
39. **Penal Code (2019 Revision)** – This Act provides for a range of offences, several of which are predicate offences associated with money laundering.
40. **Misuse of Drugs Act (2017 Revision)** – This Act provides that it is an offence for a person without lawful excuse or authority to, among other things, import, export, produce, sell, or distribute any controlled drug. It provides for a range of criminal penalties for drug trafficking offences.
41. **Anti-Corruption Act (2019 Revision)** – This Act provides for several criminal offences including bribing of public officers, frauds on the Government, selling or purchasing office and influencing appointments. It also provides for the appointment of investigating officers to carry out investigations about any matter which the Commission administers.
42. **Criminal Justice (International Cooperation) Act (2021 Revision)** – This Act enables the Cayman Islands to co-operate with other countries in criminal proceedings and investigations and to join with other countries in implementing the Vienna Convention against illicit traffic in narcotic drugs and psychotropic substances.
43. **Mutual Legal Assistance (United States of America) Act (2015 Revision)** – The Act gives effect to the terms of the Treaty between the USA and the UK relating to mutual legal assistance in criminal matters. The Act sets out the procedure for the receipt of requests and their execution.

#### *Additional Legislation*

44. **Monetary Authority Act (2020 Revision)** – This Act establishes the CIMA and empowers it, among other things, to regulate and supervise financial services business carried on in or from with the Islands, and to monitor compliance with anti-money laundering regulations. CIMA is empowered under the Monetary Authority Act to impose administrative fines on persons who breach any prescribed provision in any regulatory Act or the AMLRs. CIMA is empowered to enter into a memorandum of understanding with overseas regulatory authorities to assist cross border supervision. CIMA has the power to levy administrative fines under the **Monetary Authority (Administrative Fines) Regulations, 2019 Revision**.
45. Regulatory laws which fall within CIMA's remit include:
- Banks and Trust Companies Act (2021 Revision)
  - Securities Investment Business Act (2020 Revision)
  - Mutual Funds Act (2021 Revision)
  - Private Funds Act (2021 Revision)
  - Insurance Act, 2010
  - Companies Management Act (2021 Revision)

- Money Services Act (2020 Revision)
- Virtual Asset (Service Providers) Act, 2020
- Private Trust Companies Regulations (2020 Revision)
- Building Societies Act (2020 Revision)
- Cooperative Societies Act (2020 Revision)

46. **Legal Practitioners Act (2015 Revision)** – This Act established the Cayman Islands Legal Advisory Council, regulates the practice of law within the Cayman Islands, and provides for a mechanism to deal with professional misconduct and money laundering.

47. **Accountants Act (2020 Revision)** – This Act establishes the legal framework for the regulation and supervision of accountants in the Cayman Islands. The Act sets out the requirements for a licence to be issued to an audit engagement partner and regular accountant members and provides for disciplinary measures.

48. **Companies Act (2021 Revision)** – This Act provides for the incorporation, registration, and winding-up of companies. It also mandates the establishment and maintenance of beneficial ownership registers.

49. **Tax Information Authority Act (2021 Revision)** – This Act empowers the Tax Information Authority to exchange tax information with foreign counterparts. The Tax Authority is also responsible for administering the **International Tax Cooperation (Economic Substance) Act (2021 Revision)**.

#### *1.2.b. Institutional Framework*

50. **Anti-Money Laundering Steering Group (AMLSG)**: The AMLSG is a statutory body, chaired by the Hon. Attorney General, which has oversight for the development of the AML/CFT policy of the Cayman Islands Government. Membership includes the Chief Officer in the Ministry responsible for Financial Services (Deputy Chair), the Commissioner of Police, the Director of CBC, the Managing Director of CIMA, the Solicitor General, the Chairperson of the ACC, the Director of Public Prosecutions (DPP), Chief Officer or Director responsible for the DCI.

51. **Inter-Agency Coordination Committee (IACC)**: The IACC is made up of representatives from the competent authorities, as appointed by AMLSG members. It is chaired by the Head of the Anti-Money Laundering Unit (AMLU) and is responsible for the implementation of AML/CFT policies established by the AMLSG, facilitating coordination and cooperation among competent authorities, as well as assessing ML/TF/PF risks of the Cayman Islands. Sub-working groups coordinating operational efforts under the IACC include a) the **Supervisors Forum**, responsible for issues related to supervision and preventative measures; and b) the **Proliferation Inter-Agency Groups (PIAG)**, which is responsible for ensuring coordination and cooperation in PF, and to help to equip FIs, DNFBPs and VASPs to identify, assess, understand and mitigate their PF risks. The **Financial Crimes Focus Group (FCFG)** is responsible for issues related to financial intelligence, ML investigations and prosecutions, confiscations, and TF investigations reports to the AMLSG.



52. **The Anti-Money Laundering Unit (AMLU):** The AMLU was established in 2014 out of the need for greater AML/CFT cooperation and coordination among relevant competent authorities at the operational level. The Unit is the secretariat for the AMLSG.
53. **Cayman Islands Monetary Authority (CIMA):** CIMA is the single integrated supervisor for financial services in the Cayman Islands. Financial institutions that fall under CIMA's remit are banks, securities and investments companies, insurance companies, credit unions, building societies, money services businesses, and the Cayman Islands Development Bank. Additionally, CIMA supervises TCSPs.
54. **Department of Commerce and Investment (DCI):** Since March 2017, the DCI has been the designated supervisor for DPMS and the real estate sector, and in 2019 became the regulator for real estate developers.
55. **Cayman Islands Institute of Professional Accountants (CIIPA):** CIIPA is the designated (in December 2017) supervisory authority responsible for the oversight and monitoring of accountants regarding their compliance with the requirements of the AMLRs.
56. **Cayman Islands Legal Practitioners Association and Cayman Attorneys Regulation Authority (CILPA):** The Cayman Islands Government appointed CILPA as the designated Supervisory Authority for monitoring AML compliance by firms of attorneys-at-law within the Cayman Islands. CILPA delegated this supervision function to its operationally independent regulatory arm, CARA.
57. **General Registry (GR):** The General Registry is a department under the Ministry of Financial Services with AML/ CFT responsibilities for the NPO Sector. Under the NPOA, the Registrar has the authority to conduct risk-based supervision through the collection and analysis of information provided by the NPO sector. The GR is also designated by the Ministry for Financial Services as a competent authority responsible for the beneficial ownership register.
58. **Financial Reporting Authority:** The FRA is the financial intelligence unit (FIU) of the Cayman Islands and is responsible for receiving suspicious activity reports (SARs), conducting analysis to substantiate suspicion, and making onward disclosures to the police for ML/TF investigations and to counterpart FIUs in other jurisdictions. The FRA is operationally independent of government ministries or portfolios.
59. **Cayman Islands Bureau of Investigations (CIBFI):** The CIBFI was established within the RCIPS on 9<sup>th</sup> March 2020 to investigate crimes within the international financial sector of the Cayman Islands. **Financial Crimes Investigations Unit (FCIU):** The FCIU is a unit within the RCIPS that is responsible for investigating domestic financial crimes within the Cayman Islands, including tracing, freezing, and recovering the proceeds of crime. **Joint Intelligence Unit (JIU):** The JIU is a unit within the RCIPS that is responsible for gathering and sharing intelligence with partner agencies, particularly CBC and the Royal Cayman Islands Prison Services. JIU is also the liaison point for international cooperation among INTERPOL and law enforcement agencies worldwide.
60. **Office of the Director of Public Prosecutions (ODPP):** The ODPP is responsible for all criminal proceedings brought within the Cayman Islands. The ODPP is responsible

for confiscation and civil recovery. The ODPP is also the Central Authority responsible for providing and receiving international requests for legal assistance concerning the investigation and prosecution of crimes, criminal asset tracing, restraint, and confiscation under the CJICA.

61. **Anti-Corruption Commission (ACC):** The ACC, reporting to His Excellency the Governor, has broad-reaching powers to investigate reports of corruption, liaise with overseas anti-corruption authorities, and obtain court orders to freeze the assets of those suspected of committing corruption offences.

62. **Customs and Border Control (CBC):** CBC was formed in January 2019 through the merger of the Customs and Immigration departments. CBC is responsible for immigration and customs controls at all ports of entry.

63. **The Special Economic Zone Authority (SEZA):** The SEZA is a statutory board under the Ministry for Financial Services that regulates special economic zones (SEZs) in the Cayman Islands. The administrative functions of SEZA are handled by DCI as the SEZA Secretariat.

64. **Sanctions Coordinator (SC):** The SC performs a central and coordinating role in proposing potential persons for designation. This includes assessing whether they meet the designation criteria and seeking the necessary approval to make a recommendation to the Governor for consideration for the person or entity to be designated. The SC works within the FRA, which assumed responsibility for ensuring the implementation of targeted financial sanctions (TFS) for terrorism, terrorism financing, proliferation, proliferation financing, and other restrictive measures related to AML/CFT and proliferation from and within the Cayman Islands. The SC also chairs PIAG.

## CHAPTER II – MONEY LAUNDERING RISKS

### II.1. ML Threats

#### II.1.a. *Domestically Generated Proceeds of Crime*

65. Information, data, and cases from competent authorities on investigations, prosecutions, intelligence, and law enforcement operational activities were collected and analyzed to determine the domestic crime profile. The analysis identified the most prevalent proceeds-generating criminal offences in the Cayman Islands as drug-related criminality, fraud/theft, corruption, burglary, robbery and unlawful gambling. The ranking indicated in Table 3 below was determined based on the number of cases recorded, and the amount of proceeds estimated to have been generated, seized or confiscated with each predicate crime category. Except for unlawful gambling, the proceeds-generating crimes committed in the Cayman Islands are broadly similar to those encountered across the western hemisphere.

Table 3: Most Prevalent Proceeds-Generating Crime Offenses in the Cayman Islands

<b>Predicate Crime</b>	<b>Value of identified POC since 2017</b>	<b>Total number of offences in CI</b>	<b>Threat Rating</b>	<b>RANKING</b>
<b>Drug-Related Criminality</b>	13,884,000	735	Medium-High	1
<b>Unlawful Gambling</b>	8,887,000	33	Medium-High	2
<b>Fraud/Theft</b>	4,732,500	3,155	Medium-Low	3
<b>Corruption</b>	1,262,485	37	Medium-Low	4
<b>Burglary</b>	2,925,000	1,426	Low	5
<b>Robbery</b>	221,000	114	Low	6
<b>TOTAL</b>	31,911,985.00			

*Drug-Related Criminality*

66. The Cayman Islands is not a producer or exporter of illegal drugs and is not a facilitator of international drug trafficking operations. Drugs imported into the Cayman Islands are primarily for social use/domestic consumption based on “street dealing.” Most drug-related criminality in the Cayman Islands involves possession and use.

67. The most prevalent drug imported into the Cayman Islands is marijuana/cannabis from producers in Jamaica via transport by sea. The activities associated with the importation of marijuana/cannabis are by a small number of groups that lack sophisticated organization and do not appear to be linked to international organized crime. Cocaine is less commonly imported but there are occasional wash-ups of the product due to its location within the transportation corridor to North America and Europe. In these cases, cocaine is however not destined for the Cayman Islands. Law enforcement interceptions of boats containing significant quantities of cannabis and smaller amounts of cocaine, both inside and outside territorial waters, are relatively frequent. The vast majority, if not all, shipments are believed to have originated in Jamaica. There is also some evidence of streams of higher-grade cannabis being smuggled by air from the U.S./Canada, and of cocaine by air from other regional jurisdictions. But there is no intelligence to suggest that cocaine is shipped to the Cayman Islands for onward movement beyond the jurisdiction. Still, due to the Cayman Islands’ relative proximity to cocaine-producing countries such as Peru, Bolivia, Belize, Colombia, Guatemala and Mexico, and the transportation corridor to North America and Europe, it cannot be excluded that in some isolated cases trans-shipment activities may be taking

place. There is no evidence of the availability of heroin and other opioids in the Cayman Islands or the “recreational use” of LSD and amphetamines.

68. Despite recent successful prosecutions for domestic drug trafficking and frequent successful interceptions of drugs destined for the jurisdiction, the volume of associated cash seizures is limited. Between 2018 and 2020, law enforcement seized cash totalling US\$786,298 and \$13,705 for drug-related and illegal gaming activities.

69. Intelligence shows that the funds for purchasing drugs and facilitating their transportation are often remitted through MSBs. Various resident purchasers use several persons to remit low amounts of money to recipients in the country of origin of the drug, predominantly Jamaica. This recognized methodology is to avoid suspicion.

### *Unlawful Gambling*

70. While not designated by the FATF as a “predicate offence” for money laundering, gambling is illegal in the Cayman Islands but seems to generate a significant volume of illicit proceeds. Residents from all social and economic strata of the Cayman Islands are believed to be involved in the “selling of numbers” (i.e., local simulations of lotteries that are lawful in other jurisdictions). Intelligence suggests that selling numbers is based on a hierarchal structure, with main organisers at the top, ‘bankers’ that collect bets and distribute winnings in the middle, and ‘sellers’ who facilitate bets from the public being at the bottom. Those involved in the selling of numbers are believed to include persons who are otherwise gainfully employed, as well as some who are unlawfully in the jurisdiction and funding their lifestyle through involvement in such offence. While illegal gambling is organized domestically; there is no indication of any links to well organized transnational criminal groups.

71. Intelligence and law enforcement information suggests that proceeds generated from illegal gambling are in the millions annually and are integrated into the local economy through legitimate businesses. Parts of the proceeds may also be transferred outside the Cayman Islands for investments. Assets valued at US\$8.8 million have been identified in two domestic ML investigations concerning illegal gambling. These assets are being considered recoverable property.

#### **Case Study 1 – Money Laundering and Illegal Gambling**

In 2019, during operational activity involving the execution of several search warrants, large quantities of unexplained cash were located at several addresses. Over US\$100,000 in cash was seized on the suspicion that it represented recoverable property, namely, it was derived from the proceeds of unlawful conduct or was to be used by a person in unlawful conduct.

This operation involved the arrest of several individuals, and several of them were charged with illegal gambling and possession of criminal property.

Considerable analysis of financial material was undertaken, and investigations are still ongoing in relation to indicting the organisers of the criminal enterprise with alleged criminal conspiracy and money laundering lifestyle offences.

The underlying predicate criminality appears to be illegal gambling. In developing the investigation of the case, requests were made to the FRA to identify accounts, assets and other intelligence or information that is held on the individuals in question. This information has been of great value for the parallel money-laundering investigation.

### *Fraud/Cyber Fraud*

72. Domestic fraud has historically been relatively unsophisticated. The majority of cases that form the subject of reports, investigations, and prosecutions involve allegations of fraud within the workplace, often committed by those in a position of trust. There are, however, indications of underreporting due to fear of adverse publicity. Law enforcement statistical data for the period 2017 to 2020 for fraud-related offences indicate that most of the fraud investigated and prosecuted in the Cayman Islands involves a breach of trust where funds are embezzled by employees. The victims in these types of cases include local businesses, financial institutions and NPOs, with losses ranging between US\$5,000 and US\$300,000.

73. The following case study illustrates one of the more significant cases where an employee with substantial responsibilities and knowledge of weak internal controls successfully defrauded his employer.

#### **Case Study 2 - Fraud, Money Laundering and Theft**

In 2018 Mr X, a foreign national was accused of embezzling over \$300,000 from his employer, a small non-profit organisation, over three years by using his position of trust within the organisation to conceal his criminality. Mr X was employed as the general manager of a prestigious members-only club in the Cayman Islands that operated as a non-profit company limited by guarantee. Mr X was answerable only to the board of directors and worked with considerable autonomy.

He was entrusted to conduct the day-to-day management of the club premises and employees and was a signatory on the club's bank accounts. In his position of financial trust, he was responsible for the timely payment of staff wages and all other club expenditures. Mr X was personable, well thought of by staff and popular with club members. The club's bank accounts required two signatures on cheques, and such was the trust placed in him that he was regularly provided with numerous blank cheques that had been signed by a second account signatory.

This lack of scrutiny over the club's finances enabled Mr X to systematically steal over \$300,000 of club funds over three years, on occasions forging the signatures of the club Treasurer and President, making the blank cheques payable to himself and cashing them at the bank. Mr X was well known by bank staff and was never questioned as to the level or frequency of his cheque encashments. Mr X used the funds to finance his day to day living expenses, travel and the purchase of a vehicle. Club records were falsified by Mr X to show the cash being used for miscellaneous club expenditure. In 2019, Mr X was sentenced to 6 years, 8 months' imprisonment for offences of fraud, money laundering and theft.

74. Other fraud schemes that feature prominently in the Islands involve false advertising of property, failure to deliver products or services paid for in advance, and occasionally the abuse of vulnerable victims. A prominent case investigated by the jurisdiction involved a foreign national who defrauded a vulnerable elderly resident of cash, jewellery, and real estate valued at US\$6 million. The accused was charged with 7 counts of forgery, obtaining property by deception, uttering false documents, and theft. Law enforcement was able to seize properties including real estate. Upon conviction, the accused was given a custodial sentence and a compensation order was granted.

75. Given that the Cayman Islands is an IFC, breach of trust by employees at financial institutions has the potential to cause reputational harm. In most cases, conduct is however perpetrated for self-benefit and not on a professional basis. Only in one case involving the fraudulent theft of US\$1 million by a domestic perpetrator the proceeds were subsequently wired to New Zealand. Efforts are still being made to recover those funds.

### Case Study 3 - Fraud

In 2019, the FCIU commenced an investigation based on disclosure from the FRA about suspicious activity on an employee's bank account that was receiving significant deposits with narrative invoice payments.

The bank statements for the employee's account showed that it received over US\$500,000 from various businesses, which appeared to be payments for goods and services. The employee's employer was contacted, and on being shown redacted bank statements, stated that the payments were due to them for IT services and equipment. The company director of the employer searched company records and confirmed that a substantial number of invoice payments appeared to have been paid directly to the employee. Thereafter, the employer confirmed that the employee had left the jurisdiction months earlier to live in another foreign jurisdiction.

Response from a request was made via the ARIN-Carib network revealed that the employee continued to reside in the foreign jurisdiction and had established ownership of property and bank accounts. Efforts are still underway to recover the misappropriated funds.

A further detailed examination of the employee's bank accounts identified that over US\$1 million were stolen from the employer by deception, and over US\$500,000 was transferred from Jurisdiction A to Jurisdiction B.

Egmont requests were made via the FRA to Jurisdictions A and B. The response from Jurisdiction A showed that the employee purchased a property, cars and a boat, as well as details relating to the purchase of an apartment in Jurisdiction C. An Egmont request was thereafter sent to Jurisdiction C to identify the apartment and its cost.

Money laundering charges have since been laid against the employee, and proceedings regarding the restraint of assets in Jurisdictions A and C and extradition of the employee are ongoing.

76. There has been a recent increase in the level of cyber-based fraud reported at the domestic level, involving allegations of identity theft arising from potential data breaches. Such offending causes significant financial damage and is becoming increasingly sophisticated at a global level through, for example, ransomware attacks targeted at public institutions. Whilst cyber-based fraud also poses a threat at a domestic level (both to individuals and businesses whose identities are imitated), the sophistication of those who perpetrate fraud of this type is such that it can be extremely difficult to address through any means other than the raising of public awareness and continued co-operation with an international counterpart.

77. SAR statistics indicate that Business Email Compromise (BEC) fraud poses a significant threat, but also that mitigation measures adopted by financial institutions have had a significant effect. In 2018, losses of US\$2.9 million were reported, with an additional US\$3.2 million in losses prevented; in 2019, reported losses were US\$1.4 million, with an additional US\$67.7 million in losses prevented; and in 2020, reported losses were US\$9 million (recovery efforts for US\$6 million ongoing), with an additional US\$17.3 million in losses prevented. RCIPS data indicates that over 200 cybercrimes were reported in 2020, including cyber currency ransom, hacking, “sextortion,” and online fraud. There has also been a recent increase in the reporting of debit/credit card fraud within the jurisdiction, including one case involving the use of cloned cards by tourists. BEC poses a significant threat to the jurisdiction, and in particular the business community, and has further increased with the COVID-19 pandemic and the imposition of lockdown measures, increased remote working, online communication, and automated business services.

### *Corruption*

78. Domestic corruption poses a money laundering threat in the Cayman Islands, but the volume of proceeds generated from domestic corruption is minor compared to the threat resulting from foreign corruption. Law enforcement and SAR information reveal that the banking sector faces the primary threat of domestic corruption as bank accounts are the primary instruments used to receive or pay bribes. The analysis also shows that Cayman Islands Ordinary Companies are the legal structure most frequently linked with domestic corruption. Ordinary Companies do actual domestic businesses that are the foundation of the local economy.

79. Recent investigations and prosecutions have included alleged corruption both in the private sector and the public sector. Whilst many such offences are classified as “low level” corruption due to the modest amounts involved, the ACC recognizes the potential existence of systemic corruption with greater profits within the Cayman Islands. The number of complaints received by the ACC has reduced in the recent past. But based on interviews conducted during numerous investigations with both witnesses and suspects, there has been a significant increase in the complexity and scope of domestic corruption.

80. In February 2020, the FRA issued a non-public Strategic Analysis Report (the “Report”) that examined financial intelligence for the period 1 January 2015 to 31 December 2018, where the suspected criminality was corruption. The results of the analysis suggest that suspicion of corruption accounts for 7% to 11% of the total SARs

received by the FRA each year, and 16% of those SARs received concerned domestic corruption. Domestic corruption cases are all related to public procurement fraud or unexplained wealth. SARs about domestic corruption predominantly involved individuals, some in government but most of them not in senior positions.

#### Case Study 4 - Corruption

Female 'A' was employed by the Cayman Islands Government (CIG) Department 'A'. Man 'B' and 'C' were associates of Female 'A'. Man 'D' was an associate of Man 'C'. A report was made to CIG Department 'A' alleging that Female 'A' was unlawfully providing official CIG documentation to members of the public in exchange for cash payments. Department 'A' commenced an internal review and identified that Female 'A', in processing certain government transactions, appeared to have issued several official documents within implausible time frames, tending to confirm that they had been issued fraudulently. Department 'A' alerted the Chief Officer and following a multi-agency meeting, appointed the Internal Audit Service (IAS) to commence an audit of Department 'A'.

Analysis from the audit confirmed that female 'A' had processed suspicious transactions with at least 20 applicants. The IAS then referred the matter to the ACC and a criminal investigation was commenced.

In consultation with the ACC investigators, IAS commenced a whole scale review of the legitimacy of all similar transactions undertaken by Department 'A', whereby the scope and parameters were substantially broadened. The review led to the identification of 132 potentially fraudulent cases directly linked to Female 'A'.

Analysis of communications data between Female 'A' and Man 'B' identified significant and compelling evidence of Female A's direct involvement in the fraudulent issuance of official government documents. The analysis showed that the issuance not only personally benefitted Man 'B,' but also support his role as a conduit for facilitating the issuance of documentation by female 'A' to others.

Additional communications links were established demonstrating an association between Female 'A' and Man 'C', as well as between Man 'C' and Man 'D'. Man 'C' and Man 'D' were each independently identified by clients to be implicated with Female 'A' in a conspiracy to provide fraudulent documentation to members of the public. Female 'A', Man 'B', Man 'C' and Man 'D' were charged in December 2020 with multiple offences, including breach of trust.

In April 2021, all accused pleaded guilty. The ACC continues to investigate further lines of enquiry arising from this investigation.

#### *Burglary*

81. Over the last 4 years, the potential financial gain generated from burglary offences in the Cayman Islands is estimated at \$3 million, which suggests that the financial reward generated from burglaries have reduced compared to the period before 2017. The underlying reasons for this trend are believed to be the following:



- a. There has been significant disbandment of previously organised, albeit unsophisticated, criminal groups actively targeting high-value residential areas and removing jewellery and other high-value items. The arrest and conviction of key members of these groups resulted in a substantial reduction in burglary threat, and capability to commit complex burglary offences. Intelligence and law enforcement reports show that these groups are neither the same nor linked to the groups involved in the importation of illegal drugs. The level of sophistication is low, and they are not linked to organized transnational criminal groups.
- b. Those offender groups that continue to be involved in burglary offences are disorganised. The premises and property types targeted are more random and in general of lower value.
- c. RCIPS invested significant resources in pursuing burglary offenders and in localised crime prevention strategies.
- d. The communities of the Cayman Islands invested in crime prevention measures within domestic and commercial premises that deterred offenders, particularly opportunists.
  - a. The COVID-19 'lock-down' restrictions impacted the opportunity to commit burglary, resulting in a significant reduction in 2020.

### *Robbery*

82. From 2017 to 2020, there was a total of 114 robbery offences recorded in the Cayman Islands, resulting in an estimated \$200,000 of proceeds being generated through this offence. Commercial robberies (including cash and valuables in transit) most frequently target restaurants, convenience stores, stations. In the context of personal robberies, victims are primarily targeted in outdoor public areas – main roads, parking lots, yards and beaches. The primary items targeted by offenders are cash, mobile phones, and jewellery. The consequences of burglary and robbery are mostly the monetary losses of the stolen or burglarized items. Intelligence suggests that in the vast majority of these cases, the stolen property is expended domestically and does not leave the jurisdiction. There are also no indicators to suggest that the property is converted, and the value remitted out of the jurisdiction.

### *Other Crimes*

83. Of the remaining FATF-designated categories of predicate offences, the crimes noted below form part of Cayman Islands domestic ML threat profile to some extent.

84. **Domestic Exploitation** - Several strands of intelligence suggest that domestic exploitation exists on the Island, with the appearance of some organized elements. Domestic exploitation is normally associated with the abuse of expatriate workers in the domestic sector, particularly those coming from societies. Domestic exploitation may include such practices as requiring ex-pat workers to pay their work permit fees for themselves, depriving them of employment benefits such as pension and insurance, or sharing their services with other persons not legally entitled to receive those services.

85. Further collation of data needs to take place to get a clearer picture of the level and extent of domestic exploitation occurring within the jurisdiction. At present, there is no indication that this activity presents any significant money laundering threat.

86. **Counterfeit Currency** - The majority of reports received by law enforcement concerning counterfeit currency involve circumstances where counterfeit notes are detected by vendors upon tender, or by CIMA when processing deposits from commercial banks. Examination of counterfeit notes often reveals that the printing is of a substandard quality, which makes for easy detection. There are no reported incidents of individuals or organized criminal elements counterfeiting currency on a large-scale basis.

87. **Murder, Grievous Bodily Harm** - The Cayman Islands is considered one of the safest places in the world and has a very low homicide rate. The majority of the crime is domestic and does not have any element of 'assassins for hire.' The prospect of murder generating proceeds for money laundering is therefore very low.

88. **Environmental Crimes** - The Cayman Islands has enacted legislation that criminalizes activities that threaten or damage the natural environment. These laws include the following:

- National Conservation Act (2013) (NCA)
- Planning Act (PA)
- Endangered Species (Trade and Transport) Act (2017 Revision) (ESTTA)

89. The NCA requires persons to obtain a permit before clearing plants and trees, and the PA requires permission for the mechanical clearing of land. The two laws are connected through the requirement of certain activities to conduct an environmental impact assessment before a permit can be granted. Penalties for breaches include fines, imprisonment, forfeiture of goods, directing compensation, and disqualification from future actions. The ESTTA gives effect to the obligations of the Convention on Trade in Endangered Species in the Cayman Islands and is specific to listed species. Clearing of land occurs illegally within the Islands (and is a local environmental risk) but is a small issue even given the size of the Cayman Islands and the amount of permitted clearing which occurs. There may be violations of permit conditions which would entail relatively small fines.

90. Conch, which is CITES<sup>8</sup>-listed, is commonly fished and sold in the Islands, where the meat is consumed, and the shells are often sold as souvenirs. This is regulated by the Department of the Environment. Caviar is also listed and is imported for consumption in the Cayman Islands. The import of Caviar is monitored by the CBC. In addition, certain jewellery products may be comprised of protected species, for example, watch straps, which are imported and then removed when purchased by consumers. The value of seizures of such trades in contravention of the legislation is low, with estimated seizures amounting to less than 5 per year and valuing less than \$5000.

91. In the region, poaching and smuggling are likely the most common illegal activities. On a larger scale, there is the possibility that illegal fishing is present and may

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<sup>8</sup>CITES stands for **Convention on International Trade in Endangered Species of Wild Fauna and Flora**, which regulates the trade of Queen Conch. Conch are listed as a protected species in Schedule 1 of the National Conservation Act, 2013.

be connected to organized crime. It is believed that vessels used for illegal fishing may be from jurisdictions that are subject to less regulation than reputable maritime authorities. The near-shore waters of the Cayman Islands are extensively monitored for environmental infractions. However, that monitoring does not extend to offshore waters. The risk in the Cayman Island waters of illegal fishing by organized crime or illicit businesses is low given the jurisdiction's limited fishery resources. Within the region, illegal, unreported, and unregulated fishing is likely to carry a somewhat higher risk.

#### *II.1.b. Foreign-Generated Proceeds of Crime*

92. As an IFC, the Cayman Islands is exposed to significant threats from foreign proceeds of crime (FPOC). This is primarily because the majority of the Cayman Islands' customer base is non-resident both by number and value, funds held in or managed from the Islands are generated predominantly outside the jurisdiction, and the domestic corporate and investment vehicles are easily accessible globally. The existence of a large number of locally incorporated corporate entities with only very limited ties to the jurisdiction further contributes to the threat of exposure to FPOC, as funds can be routed through foreign bank accounts held by such legal entities. Accordingly, the greatest money laundering threat for the Cayman Islands results from proceeds-generating predicate offences committed abroad, with the resulting proceeds flowing into or through the Islands financial or non-financial institutions, or businesses or legal entities.

93. Recognizing that FPOC poses a significant threat to the Cayman Islands, the RCIPS established in 2020 a dedicated authority, the CIBFI, to proactively investigate complex and international cross-border money laundering, financial crime, and terrorism financing cases. Since its establishment, the CIBFI commenced 51 stand-alone ML cases. These cases served as the first set of tangible cases that were instrumental in helping the Cayman Islands to develop an understanding of its international ML threat profile. Of these cases, two involved legal entities (both exempt companies) as suspects and 26 involved legal entities that were used to facilitate the suspected offence. The 51 cases investigated so far involved a total value of U\$911,902,000 in FPOC.

94. Despite these major strides towards a better understanding of FPOC risks, an appreciation of the underlying criminality from which FPOC flowing into or through the Cayman Islands stem requires further examination for several reasons, including but not limited to those addressed below. First, the Cayman Islands has strong financial ties with IFCs in the UK, USA, and Asia, and focuses on markets that are developed in IFCs such as London, New York, Hong Kong, Singapore, and the United Arab Emirates. Financial flows, both incoming and outgoing, largely involve these markets. At the same time, these countries are often not the source of investments. Accordingly, investments into the Cayman Islands, to a large extent, may not be direct but may be routed through financial institutions in such IFCs, with assets then flowing on to the Cayman Islands—which in turn creates an additional layer of complexity in determining the Cayman Islands risk exposure with regards to FPOC. Secondly, in several sectors, the business links between the Cayman Islands and foreign financial markets are through corporate funds or corporate administration services that are outsourced from the Cayman Islands and vice versa. These relationships create additional complexity in determining the exact ways in

which the Cayman Islands may be exposed to ML associated with foreign predicate criminality.

95. At the time of the drafting of the 2021 NRA, investigations in the Cayman Islands for stand-alone money laundering relating to foreign predicate had significantly increased and allowed for a more nuanced view on the Cayman Islands’ foreign ML threat profile. For this section, the working group thus predominantly relied on domestic stand-alone ML investigations and prosecutions relating to FPOC, financial intelligence, incoming mutual legal assistance requests, as well as open-source information. Furthermore, the section also considers foreign predicate committed through the Cayman Islands legal entities. Based on this information, the most prevalent foreign proceeds-generating offences posing an ML threat to the Cayman Islands are represented in the following table.

Table 4: Summary of Risk of Predicate Offences

<b>Predicate Crime</b>	<b>Value of Identified FPOC since 2017 (in US\$)</b>	<b>Total number of SARs reported in CI</b>	<b>Total number of related stand-alone ML / TF cases in CI</b>	<b>Threat Rating</b>	<b>RANKING</b>
<b>Fraud</b>	394,090,000	879	17	High	1
<b>Corruption/ Bribery</b>	340,404,000	262	7	High	2
<b>Tax Evasion</b>	177,008,000	366	12	High	3
<b>Drug Trafficking</b>	N/A	37	N/A	Medium-High	4
<b>Terrorism Financing</b>	Approx. 400.000	51	7	Medium-Low	5
<b>Organized Crime</b>	N/A	25	N/A	Low	6
<b>TOTAL</b>	<b>911,902,000</b>	<b>1,631</b>	<b>43</b>		

### *Fraud*

96. Since 2015, fraud accounted for around 21.4% of SARs received by the FRA, constituting the most reported activity second only to “general suspicious activity,” which made up 35.9% of filed SARs. Investment and securities fraud was identified as a major foreign threat to the jurisdiction. SAR filings to the FRA included incidences where assets owned by individuals or entities had been the subject of adverse reports regarding insider trading and stock manipulation and were suspected to be tainted with the proceeds of fraud schemes. SARs also pointed to financial fraud involving deception such as Ponzi schemes, pyramid schemes, mortgage fraud schemes, and advance fee frauds.

Other incidences included cases involving excessive fees charged by financial service providers, some form of deception, including breach of investment guidelines, allegations of misappropriation of funds or suspicions of fraudulent financial reporting. BEC fraud was also identified as a major foreign threat for the Cayman Islands.

97. In the majority of cases, fraud schemes involved Cayman Islands' legal entities, some without any further connection to the Cayman Islands, other than being incorporated in the country. Cayman Islands' legal entities frequently feature in the media concerning alleged fraud and are often mentioned in civil lawsuits pending in the US or other foreign jurisdictions.

98. The ML threat of proceeds generated from market abuse, including insider trading or market manipulation on a foreign market, is high. This is because of the international nature of the Cayman Islands securities market and funds industry, and the significant amount of trading activity on foreign marketplaces that takes place through Cayman Islands securities intermediaries and mutual funds.

99. While no concrete numbers are available on the value of the total fraud related FPOC that may be routed through or deposited in the Cayman Islands, the amounts involved are considered to be significant. In four securities-fraud cases investigated between 2019 and 2020 for money laundering and involving foreign predicate, the value involved was approximately \$350 million. In four additional fraud cases investigated for stand-alone money laundering and involving foreign predicate, the value involved amounted to \$38 million. Further stand-alone money laundering cases in the Cayman Islands involve insider trading (total \$9 million), investment fraud (total \$3 million), cyber fraud (total \$1.6 million), and medical fraud (total \$0.9 million).

#### **Case Study 5 - Securities Fraud**

A SAR was filed by a Cayman Islands financial service provider (FSP) because it was unable to confirm via a direct phone call, email instructions received from Mr A to make a wire transfer from a business account. The following day, an individual visited the FSP claiming to be Mr A's representative, requesting additional fund transfers from the same business account and the addition of a new signatory to the account.

The FSP reported that Mr A is the sole director, shareholder, and beneficial owner of Company A, which is domiciled in the Cayman Islands and maintained accounts with the FSP. Further investigations by the FSP identified that Mr A along with other individuals had been indicted in an alleged series of fraudulent securities schemes involving the common stock of three penny-stock issuers in Jurisdiction 1. Directions issued by the FRA under s.4(2)(c) of the POCA helped identify further information about the balances in the accounts, the number of funds that had been processed in the accounts, sources of the deposits, and beneficiaries of outgoing transfers. This information facilitated the identification of links to other companies/individuals mentioned in the indictment.

SARs were also received from other FSPs that helped develop a more comprehensive understanding of Company A's operations, along with other companies affiliated

with Mr A. Disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 1. Subsequently, Mr A pleaded guilty and was convicted for conspiracy related to securities fraud (“pump and dump”) in Jurisdiction 1 and had his Director’s Registration suspended by CIMA.

#### **Case Study 6: Fraud - Crypto Pyramid Scheme**

The FRA received several SARs concerning Mr. C’s connection to several Cayman Islands companies, trusts, and bank accounts maintained at Cayman Islands financial institutions. At least one year before Mr. C’s conviction for laundering approximately US\$400 million connected to a crypto pyramid scheme, the FRA had conducted a thorough analysis of SARs and identified several Cayman Islands bank accounts and corporate vehicles that were used to launder the proceeds in question. In addition, the FRA also identified a multi-million-dollar yacht registered in the Cayman Islands that was beneficially owned by Mr. C. In December 2018 and again in May 2019, the FRA disclosed information to CIMA, the FCIU, and two overseas FIUs. The information supplied by the FRA assisted in Mr. C’s prosecution and subsequent conviction in Jurisdiction A. The FRA also identified co-conspirators who are currently being investigated overseas.

#### **Case Study 7: Fraud - Ponzi Scheme**

The Fund Administrator of two Cayman Islands ELPs both regulated by CIMA filed a SAR for several concerns including the following:

- the postponement by the General Partner (GP) of several redemption requests submitted by investors in the Funds for several months;
- directions from the GP to backdate redemptions, restate the NAV accordingly, and post-date settlement of those transactions;
- the Funds' trading activity had been limited to owning the stock of Company X (domiciled in Jurisdiction 9) and based upon ownership levels, the Funds appear to be significant shareholders of Company X;
- all communication with investors is made through the GP or the Director of Company X;
- there is an unusual consistency in the cash flows of the funds, in that previous redemptions have been offset by subscriptions from new investors without requiring any corresponding activity in the investment positions held by the Funds;
- other service providers to the Funds are different from those named in the offering documents (domiciled in Jurisdiction 9);
- both the custody statements and the email communicating the statements contain numerous typos; and
- the Fund Administrator was not provided with a copy of the signed Investment Management Agreement with the company named as Investment Adviser of the

Funds in their respective Private Placement Memorandums. Neither had they communicated directly with the Investment Adviser

A direction was issued by the FRA under s.4(2)(c) of the POCA to obtain further information, including the following: details of the number of investors for each class of shares for the Funds; NAVs for the Funds, broken down by class of share; and the number of shares of Company X held by the Funds. As there were reasonable grounds to suspect a potential Ponzi scheme operation, disclosures were made to the FCIU, CIMA, and the FIU in Jurisdiction 9.

### **Case Study 8 - Business Email Compromise**

An FSP reported in a SAR that its client, Company M, domiciled in the Cayman Islands and licensed by CIMA, had been a victim of a business email compromise fraud. The FSP had been advised that its client was looking for new investment opportunities and would be liquidating several of its investments that had not performed as expected. Over a short period, the FSP received and processed several instructions to transfer funds to alternative investment accounts. The FSP issued instructions to send wires to companies that maintained accounts in Jurisdictions 12 and 13. The FSP also received a request to confirm balances maintained by Company N (sole shareholder of Company M and domiciled in Jurisdiction 14) in its Cayman Islands bank account and was advised that funds would be transferred from Company N's bank account in Jurisdiction 14 to fund a payment to a company that maintained a bank account in Jurisdiction 15.

The funds were received into Company N's Cayman Islands bank account and instructions were received to send the funds to the bank account in Jurisdiction 15. However, the FSP noted a subtle difference in the email domain sending the instructions and it was identified that the email of Company N had been compromised. It was also discovered that Company N's bank account in Jurisdiction 14 had been compromised. The payment instructions were not executed.

The Cayman Islands bank was informed of the situation and attempted to recall the previously executed wire transfers, but the attempts to recall the funds were unsuccessful because of the time that had elapsed.

The FRA's analysis revealed a level of sophistication by the perpetrators of the fraud, at times checking with the FSP the number of funds held at the bank accounts, as well as maintaining the structure of the Cayman Islands bank account as the disbursing account. The identified recipients of the wire transfers also did not stand out as unusual investment positions with the companies being involved in market research or emerging wearable technology.

Disclosures were made to the FCIU, CIMA, and the FIUs in Jurisdictions 12 to 15.

### *Corruption/Bribery*

100. From 2016 to 2019, bribery and corruption made up approximately 9.4% of SARs reported to the FRA, 84% of which involved allegations of foreign corruption. Based on

these disclosures, the FRA, in February 2020, issued a non-public *Strategic Analysis Report (the “SA Report”)*. The SA Report revealed that the cases reported by Cayman Islands FIs and DNFBSs involved almost to an equal extent procurement fraud, private sector corruption, and unexplained wealth/income scenarios, pointing to a diverse use of the Cayman Islands for different corruption schemes.

Table 5: Different Types of Corruption Schemes

<b>Corruption - International</b>					
<b>Categories</b>	<b>Unexplained Wealth or Income</b>	<b>Procurement Fraud</b>	<b>Private Sector Corruption</b>	<b>Other<sup>9</sup></b>	<b>Total</b>
Cayman Islands	0	0	1	16	<b>17</b>
Brazil	9	21	4	6	<b>40</b>
Peru	6	4	1	5	<b>16</b>
Malaysia	9	1	1		<b>11</b>
Mexico	5	2	0	1	<b>8</b>
United States	0	0	9	0	<b>9</b>
China	4	1	1	2	<b>8</b>
Panama	1	1	4	2	<b>8</b>
Venezuela	1	0	3	3	<b>7</b>
Saudi Arabia	4	1	0	1	<b>6</b>
Russia	2	0	2	0	<b>4</b>
Argentina	0	1	1	1	<b>3</b>
Colombia	1	2	0	0	<b>3</b>
Guatemala	2	1	0	0	<b>3</b>
Kuwait	3	0	0	0	<b>3</b>
Monaco	0	2	0	1	<b>3</b>
South Korea	2	0	1	0	<b>3</b>
Others	13	4	3	7	<b>45</b>
<b>Grand Total</b>	<b>62</b>	<b>41</b>	<b>31</b>	<b>45</b>	<b>179</b>

101. Unexplained income or wealth often involved cases where foreign public officials used their position and power to gain funds or other assets illegally. The wealth or income generated from bribe-taking or embezzlement is frequently committed either directly by the public officials, or with the assistance of their family members or close associates. Procurement fraud cases cover methods by which public officials use their influence in favour of certain parties in public tenders, contracts, suppliers’ procedures, etc., in exchange for funds in the form of cash, checks, loan payments, assets or other

<sup>9</sup> “Other” is any other forms of corruption schemes that do not include unexplained wealth/income, procurement fraud, or private sector fraud as used in this Report.



benefits. Private sector corruption frequently involved a foreign-based manager or employee choosing to act for his/her benefit and contrary to his/her duties and responsibilities. As in all other FPOC categories, foreign corrupt practices involve Cayman Islands legal entities that often serve as the links between the criminal conduct and the jurisdiction. While the Cayman Islands' legal entity was not in all cases the main subject of the SARs, domestic companies or legal arrangements were in many cases used or beneficially owned by the subject of the SARs.

102. As depicted in the table below, the *SA Report* further identifies the type of legal entity involved in the various cases or the financial instruments used (horizontal row), as well as the source of the SAR in the Cayman Islands (vertical row).

Table 6: Types of Legal Entities Involved

Corruption - International								
Case Maker Category	Entities Involved					Products		Total
	Ordinary Companies	Exempt Companies	Limited Liability Company	Trust	Foreign	Bank Account	Investment account	
Attorneys	-	5	2	-	1	1	-	9
Auditors	-	1	-	-	-	-	-	1
Banks	3	23	3	4	9	64	10	116
Company Managers/Corporate Services Providers	3	19	3	-	1	-	4	30
Insurance Class B (i)	-	2	-	-	-	-	1	3
Insurance Manager	1	2	-	-	-	-	-	3
Investment Advisors or Manager	-	1	-	-	-	-	-	1
Mutual Fund	-	2	-	-	-	-	1	3
Mutual Fund Administered	1	-	-	-	-	-	-	1
Mutual Fund Registered	-	3	-	-	-	-	-	3
Others	-	-	-	1	-	-	-	1
Securities Broker/Dealer	-	-	-	1	-	-	-	1
Securities - Excluded Persons	-	1	1	-	1	-	=	3
Trust Company	1	13	1	10	1	5	4	35
Grand Total	9	78	10	15	13	70	25	220

103. The breakdown reveals that the banking sector faces the primary threat, with 48% of corruption-related SARs filed by banks, and Cayman Islands bank accounts and

investment accounts (portfolio investments) constituting the most frequently used products in such SARs. Trust companies and company managers/CSPs also seem to have exposure due to their involvement in the formation of the Cayman Islands legal entities. Cayman Islands funds also appear vulnerable to being used as investment vehicles to launder funds from international corruption.

The results furthermore show that Cayman Islands Exempt Companies are the legal structure most frequently linked with international corruption. In most of the SARs reviewed, the legal owner of the Cayman Islands legal entity was an entity incorporated in another jurisdiction or a trust.

104. Between 2017 and October 2021, the ODPP responded to international requests for assistance in 24 bribery cases and 29 corruption cases. The CIBFI has commenced 7 stand-alone money laundering investigations relating to foreign corruption/bribery schemes involving a total of US\$340 million—making foreign corruption a very material foreign predicate crime in the Cayman Islands context. Two restraint orders of assets valued at approximately US\$200 million have been secured.

105. Well-known international corruption cases involving the Cayman Islands included the Malaysia Development Fund Case (MDF); the Odebrecht case (Brazil); and the Vlad Luca Filat case relating to the son of the former prime minister of Moldova.

106. The case of MDF involved at least six jurisdictions and related to Malaysian government officials allegedly siphoning off money from a government development bank (1MDB) for personal gain. The scheme allegedly misappropriated over \$4.5 billion from 1MDB. The US Department of Justice settled with 1MDB in October 2019 for the recovery of US\$700 million from Low Taek Jho, the alleged mastermind behind the scheme. As reported in the *Jurist Legal News & Research* on 31<sup>st</sup> October 2019<sup>10</sup>, a supervised Cayman Islands legal entity served as trustee overseeing the assets at issue in the case. The FRA made disclosures to relevant overseas FIUs, both upon request and spontaneously.

107. In December of 2016, Odebrecht S.A. pled guilty in the Eastern District of New York to conspiring to violate the anti-bribery provisions of the Foreign Corrupt Practices Act (FCPA) in connection with a broader scheme to pay nearly \$800 million in bribes to public officials in twelve countries. In October 2019, a Miami-based financial advisor, Frank Roberto Chatburn Ripalda (Chatburn), pleaded guilty to money laundering conspiracy for his role in using the U.S. financial system to launder money to promote violations of the FCPA and Ecuadorian bribery law and to conceal and disguise the true nature of those illegal bribery payments. He admitted to conspiring with another Ecuadorian government official to conceal bribery payments intended for the official from Odebrecht S.A., the Brazilian construction conglomerate. These illicit payments were for the benefit of several then-PetroEcuador officials and were facilitated using companies and bank accounts in the United States, Panama, the Cayman Islands, Curacao, and Switzerland.

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<sup>10</sup> <https://www.jurist.org/news/2019/10/us-department-of-justice-reaches-settlement-in-1mdb-fraud-case/>

108. The UK National Crime Agency's (NCA) investigation found that Vlad Luca Filat's extravagant London lifestyle included a £1,000-per-day Chelsea penthouse and a £200,000 Bentley Bentayga. These were funded through large deposits from overseas companies, including in the Cayman Islands and Turkey. Mr. Filat was ordered to hand over £466,000 to the UK authorities from his three UK HSBC accounts, which were frozen in May 2018.

109. Other less internationally exposed cases, as reflected in case studies below, illustrate how the Cayman Islands may be used to launder proceeds from foreign corrupt practices.

#### **Case Study 9 - Foreign Corruption**

An FSP reported that it held four investment accounts for Companies F, G, H, and I on behalf of politically exposed individuals. Company F (domiciled in Jurisdiction 4) received funds from an overseas company (domiciled in Jurisdiction 5) and immediately transferred those funds to investment accounts for companies G and H. There was also negative media concerning the individuals and the investment manager managing the accounts (the investment manager is domiciled in Jurisdiction 6). The FSP subsequently reported that the investment manager had requested that the monies held be transferred to Jurisdiction 7, where the individuals already had business relationships.

Based on directions issued under s.4(2)(c) of the POCA, the FRA obtained copies of due diligence documentation and activity in the relevant accounts. A review of the account activity for Company F revealed substantial incoming wire transfers from a company that had been linked to state-level corruption in a foreign jurisdiction; as well as from one of the individuals employed with a state-owned corporation that had undergone privatization.

Open-source searches also revealed that authorities in Jurisdiction 8 appeared to have an interest in the persons affiliated with the account holders. The FRA formed the view that there were reasonable grounds to suspect that the accounts held proceeds of crime. Disclosures were made to the FCIU, CIMA and the FIUs in Jurisdictions 4 to 8. After the initial disclosures, the FRA received additional information indicating that there was an imminent risk that the funds held in the Cayman Islands were going to be transferred to an overseas jurisdiction. Relevant disclosures were made to the FCIU, CIMA and the overseas FIU where the funds were going to be transferred. Further, follow-up revealed that the persons were successful in moving the funds. Efforts are underway to have those funds restrained by the relevant domestic law enforcement.

#### **Case Study 10 - Foreign Corruption**

The alleged offence directly correlates to the risk profile of the jurisdiction insofar as the offence involves the proceeds of overseas predicate crimes being laundered through Cayman Islands' financial institutions.

This money-laundering investigation was initiated following receipt of an FRA disclosure, which included bank statements and activity for active accounts, account

holder information, and corporate information regarding entities associated with one of the subjects of the disclosure. An assessment of the intelligence and information obtained strongly indicated that the funds held in the customer's account were derived or associated with criminality being investigated by the customer's home jurisdiction.

The stand-alone money laundering offences being investigated by CIBFI are about a) one non-resident natural person concerning the proceeds of crime derived from an overseas far-reaching bribery and corruption scandal and b) a Cayman Islands exempt company for failing to report suspicions of money laundering.

Early collaboration between LEAs provided sufficient information for the ODPP to obtain a restraint order under the POCA, preventing both the natural person and legal person from dissipating the assets. ODPP was subsequently granted four ex parte Production Orders under POCA to obtain further money laundering evidence.

The pro-active use of Egmont channels has assisted in the development of the investigation; material was also obtained from ARIN CARIB and other LEA to LEA arrangements to support the ongoing restraint of assets held in a Cayman Islands bank account. Enquires were also made through an overseas-based liaison officer. MLAT requests have been sent to two jurisdictions to trace assets and evidenced the layering and integration process of corruption monies suspected to have been used to purchase real estate.

### *Tax Evasion*

110. As a tax neutral IFC, international tax crimes such as tax evasion and tax fraud pose a significant ML threat to the Cayman Islands. At the time of the drafting of the 2021 NRA, the previously existing dual criminality provisions in the POCA was removed through the addition of section 247(A) of the Penal Code in 2017. The previous dual criminality provision historically inhibited the Cayman Islands from cooperating with other jurisdictions for solely tax evasion matters (e.g., without a fraud) given the absence of direct income or corporate taxes in the Cayman Islands. Tax crimes committed overseas are since treated as offences under POCA. Resulting from this legislative change, the number of tax-related SARs filed with the FRA increased in 2018 to 7% of the total SARs filed. In 2019, 4.7% of SARs were related to suspected tax evasion. There was also one disclosure to the Cayman Islands Department of International Tax Cooperation (DITC). In addition, the FRA made one disclosure to the RCIPS in 2017 and four in 2019. The ODPP responded to seven international requests for assistance relating to tax evasion over the last three years.

111. In sum, these cases resulted in 12 stand-alone money laundering investigations relating to tax fraud committed abroad, involving a total of \$ 177 million. Eleven investigations have been closed with no further action as no criminal activity was ultimately identified. One investigation remains ongoing. The current impression is that these cases reflect only a small representation of foreign proceeds of tax-related crimes that may be flowing into or through the Cayman Islands. The case studies below illustrate the types of tax-evasion schemes identified.

### **Case Study 11 - Tax Evasion**

Mr and Mrs S (nationals of Jurisdiction 21) have been customers of an FSP for several years. Their account has a substantial balance, but minimal account activity. The FSP requested that Mr and Mrs S update their due diligence information. Shortly thereafter, Mr S visited the FSP and attempted to withdraw all the funds and close their account. Mr S was advised that the FSP required the updated due diligence information before the withdrawal request and ultimate closure of the account.

Mr S explained what the money would be used for and that it had to be in cash, as a cheque or bank draft was not acceptable for the proposed purpose. Mr S further advised the FSP that he would not be providing the requested information, as it could attract attention from the revenue authority in Jurisdiction 21. The FSP placed the account under restriction pending the provision of the required information and filed the SAR. The FSP also confirmed that the customers had been included in the relevant tax filings with DITC.

While there was no adverse information regarding Mr and Mrs S, the FRA formed the view that there were reasonable grounds to suspect that they could be concealing taxable assets from the revenue authority in Jurisdiction 21. Disclosures were made to the FCIU and the FIU in Jurisdiction 21.

### **Case Study 12 - Tax Evasion**

A foreign registered company established an agricultural investment project overseas and opened a bank account with a financial institution registered in the Cayman Islands. The purpose of the bank account was to receive investors' funds ranging from £10,000 to £24,000.00. All investors were from the foreign jurisdiction and the total sum received from them was approximately £137,000. Losses on the investment were then sought to be written off as the company's tax liability. Those tax deductions were successfully challenged by the foreign jurisdiction's tax authority.

The case was dealt with in a civil capacity by the foreign jurisdiction.

### *Drug Trafficking*

112. The Cayman Islands is not a major producer of narcotics nor is it located on any major international transshipment or smuggling routes for cocaine or other illicit drugs. Yet, as a truly global, accessible and diverse IFC coupled with the geographic proximity to major drug-producing countries in Latin America, the Cayman Islands may be attractive to large, organized cartels as a conduit for channelling the proceeds of drugs sales on the European and North American markets. This exposes the Cayman Islands to the layering or integration stages of laundering proceeds from international drug trafficking.

113. The Cayman Islands continues to be vigilant and has significantly boosted its resources and capabilities concerning raising awareness and taking preventative measures as a major IFC in the Americas. Local LEAs are also proactively engaging with overseas counterparts to investigate the flow of drug-related funds. As part of this effort,

in 2013, CIMA revoked the Category B banking license of the Cayman Islands branch of HSBC Mexico after HSBC Group's Head of Compliance identified customers alleged to be involved with drug cartels and HSBC Mexico failed to terminate suspicious accounts. A more recent case occurred in 2019, when gold, valued at US\$5.0 million and allegedly linked to drug cartels operating out of South America, was transhipped through the Cayman Islands via a Cayman Islands entity to disguise the origin of the gold. Four foreign nationals and one local national were charged with money laundering and smuggling offences. All five defendants were acquitted following a jury trial.

114. In July 2019, the FCIU initiated six requests to counterparts in another jurisdiction about a parallel investigation following the interdiction of a marijuana consignment with an estimated street value of US\$1 million. The requests aimed to identify the extent of the criminal network involved, assist in identifying and tracing the proceeds of crime, and develop financial evidence in support of the drugs trafficking investigation. The drug trafficking investigation was progressed by the FCIU in coordination with the overseas partner. Two foreign nationals were subsequently charged and convicted for drug-related offences. No recoverable assets were identified.

#### *Other Crimes*

115. As an IFC, the Cayman Islands also faces foreign ML threats from other underlying predicates not detailed above. These include the predicates noted below.

116. **Organised Crime** - A small number of SARs and LEA-to-LEA exchange of intelligence indicates that there are foreign organized crime elements associated with other underlying predicate offences such as corruption, fraud, drug trafficking, etc. However, there is nothing to suggest that this is systemic or that organized crime groups are targeting the Cayman Islands.

117. **Human Trafficking, Arms Trafficking and Environmental Crimes** - An analysis of the threats of these predicates cannot be fully formed due to the very limited available information on the crimes within the Cayman Islands context.

118. **Environmental Crimes** - Environmental crime is reportedly occurring on a large scale in South and Central America. There is a risk that the proceeds of these crimes are placed into the Cayman Islands' financial system given the limits on cash being brought into the islands. The threat is somewhat greater at the layering stage. The exposure here will occur where clients of Cayman's IFC services use their legal persons, arrangements, or services to layer the proceeds of the crimes. Thus, countries, where environmental crime is prevalent, are considered high risk for such services, especially countries that are known to flounder from the presence of organized crime groups and suffer from corruption. The lack of awareness of these crimes and the lack of relevant red flags increase the likelihood that providers in the Cayman Islands are handling the proceeds of these crimes or facilitating them through the provision of financial services.

#### *II.1.c. Conclusions on Threats of Money Laundering*

119. The Cayman Islands is a major IFC offering a cross-section of services, and numerous financial products and corporate vehicles. This diversity of services and

products coupled with the high volume of the international flow of funds expose the Cayman Islands to a significant threat of money laundering of foreign proceeds of crime.

120. The information from SARs, international requests, MLATs and investigations conducted by law enforcement demonstrate the overwhelming significance of the money laundering threat the jurisdiction is exposed to from foreign proceeds of crime, which is estimated to be at least approximately US\$1 billion. Conversely, the proceeds generated domestically are estimated at US\$32 million. Accordingly, the threat level and materiality of money laundering of foreign proceeds of crime through the Cayman Islands is **high**. In contrast, the threat level and materiality of money laundering of domestic proceeds of crime are **low** due to the Cayman Islands' relatively low crime rate, the lack of serious organized crimes, and the overall low levels of proceeds involved and/or generated from these crimes.

## II.2. ML Inherent Risks

### II.2.a. Overview and Materiality

121. The Cayman Islands is a highly diversified international financial centre. Historically, the banking sector was the most material for the growth and relevance of the IFC. In more recent times, the Cayman Islands has successfully diversified and increased the materiality of many different sectors.

122. Materiality was considered, considering factors such as contribution to the Cayman Islands' GDP, number of employees in the sector, revenue generated, number of customers, amount of assets under management, and other factors measured by reference to both open-source information as well as from experts within the sectors.

123. As of 2020, the fund's sector constitutes the largest sector of the Cayman Islands financial centre. The scope of this sectoral risk assessment is however focused on the activities of mutual funds administrators licensed by CIMA. (The review of the funds' vehicles themselves is included in the legal persons and arrangements chapter).

124. Securities and Investment Businesses (SIBs), with US\$1.3 trillion of assets under management, represent the second-largest sector as of June 2019. SIB-RPs represent US\$1.27 trillion, while securities licensees have US\$16.9 billion in assets under management.

125. As an IFC, the Cayman Islands is also a conduit for direct investment inflows and outflows through company service providers (CSPs), which amounted to US\$876.1 billion and US\$890.6 billion respectively in 2019<sup>11</sup>. As of the end of 2020, TCSPs in the Cayman Islands shared in the management of approximately US\$694 billion across the various financial sectors.

126. The significance of the Cayman Islands as a banking centre has somewhat decreased over the last decade. In 2007 at the onset of the global financial crisis, external banking assets in the Cayman Islands were recorded at US\$1.8 trillion, making the jurisdiction the 6th/5th largest banking centre in the world based on cross-border

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<sup>11</sup> <https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5>

assets/liabilities. At the end of 2020, external banking assets had shrunk to US\$579 billion, resulting in the jurisdictions being ranked the 16th largest banking centre.

127. The Cayman Islands is also the second-largest Captive Insurance domicile in the world, with gross premiums amounting to US\$19.0 billion. Most of these are general insurers, not life/investment insurers (which are subject to the FATF standards).

128. VASPs are less material than the other sectors noted above. They hold customer assets of US\$4.1 billion, with daily transaction volumes of approximately US\$5.6 billion. This represents only 2% to 3% of global daily transaction volumes. VASPs are only just entering the regulatory sphere, with applications for registration with CIMA still in process as of the date of this exercise. The Cayman Islands acknowledges that its understanding is likely to develop significantly as CIMA registers more VASPs and collects more data.

129. Within the DNFBP sectors, real estate sales rose from \$798.0 million in 2017 to peak at \$855.8 million in 2018 and declined to \$816.4 million and \$770.6 million in 2019 and 2020, respectively. With no annual property taxes and no restrictions on foreign ownership, the real estate market attracts foreign buyers mainly from North America.

130. The Cayman Islands legal profession is also an important component of the jurisdiction’s financial services product, and therefore important to the economy. The legal sector expanded its share of Cayman’s economic product from 4.6% in 2006 to 6.4% in 2019, as per the Economic Statistics Office<sup>12</sup>.

131. The below table summarizes the conclusions of the NRA 2021 with regards to the inherent risk levels faced by each sector against the background of each sector’s materiality relative to others. The risk ratings for each sector are broken down by nature/size/complexity, customer, product/service/transaction, and delivery channel risk factors. Geographic risk factors are considered as a dimension of the named risk categories, rather than treated as a separate and additional risk category. The table reflects the risk rating for each sector. The various sectoral risk analysis with further breakdowns by sub-sectors are contained in the relevant sectoral sections.

Table 7: Overall Sector Risk Rating

	Mutual Fund Administrators	Securities	TCSPs	Banks	VASPS	Insurance	Lawyers	Real Estate Agents	MSB	Accountants & Auditors	Financial Leasing	DPMS	High-Value Dealers
<b>OVERALL INHERENT RISK</b>	MH	MH	MH	MH	MH	ML	MH	MH	MH	ML	ML	ML	ML
Nature, size, complexity	MH	MH	MH	MH	MH	ML	MH	H	MH	ML	ML	ML	ML

<sup>12</sup> <https://www.caymancompass.com/2021/01/08/economic-share-of-financial-services-continues-to-shrink/>



Customers	ML	MH	MH	H	MH	ML	MH	MH	MH	ML	ML	ML	L
Product/services/ Transactions	MH	MH	H	MH	H	MH	MH	MH	H	MH	ML	H	ML
Delivery Channels	MH	MH	MH	ML	MH	ML	ML	ML	ML	ML	L	MH	L

132. Taking into account inherent risk ratings and the materiality of the sector, the Cayman Islands has concluded that the most significant sectors for AML / CFT / CPF are securities, mutual fund administrators, TCSPs and banks. Lawyers and Real Estate Agents fall within the next category, followed by insurance, MSBs and VASPs. In the final category, are accountants including auditors, financial leasing, DPMS, high-value dealers and money lenders. This assists in the prioritization of the focus of resources and stringent risk mitigation measures. The inherent risks, mitigating measures, and materiality overview are depicted in the below heat map.

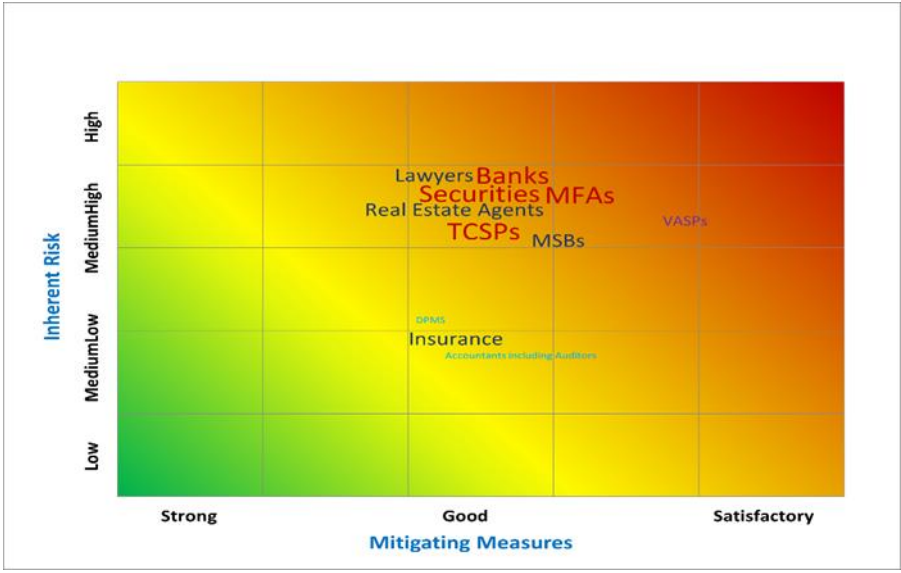


Figure 1: Heat Map Inherent Risk, Mitigating Measures and Materiality

II.2.b. Deposit-Taking Institutions

Table 8: Summary of the Banking Sector ML Risk Scores

Sub-Sector	Risk Score
Category A banks	Medium-Low
Category B banks	Medium-High
Societies	Low
<b>Overall Sector Score</b>	<b>Medium-High</b>

133. The deposit-taking institutions are composed of banks, cooperative societies and building societies (the “Societies”). Banking is a material part of the Cayman Islands financial sector. As of December 2020, the Cayman Islands was the 16<sup>th</sup> largest banking centre in terms of international assets (US\$579 billion) and 14<sup>th</sup> in international liabilities (US\$537.8 billion)<sup>13</sup> among the 48 financial centres reported.

134. There are three types of banking institutions, with the primary distinction that Category A banks may provide services to both the domestic and international markets whereas Category B banks are generally only authorized to provide services outside of the Cayman Islands:

- **Category A banks:** Most banks with a Category A licence offer retail and commercial banking services to residents in the Cayman Islands. For the domestic market, Category A retail banks can provide services to retail<sup>14</sup> and non-retail clients whereas Category A non-retail banks can provide services to resident clients not carrying business in the Cayman Islands. However, Category A Non-retail banks can also provide services to employees and other licensees. Both Category A retail and non-retail banks can provide services to international clients without restrictions.
- **Category B banks:** Category B banks are generally restricted from engaging in the banking business with residents and thus cater mostly to customers outside the Cayman Islands. However, Category B banks can provide specified services to limited categories of residential customers, including another licensee, employees and exempt or ordinary non-resident companies not carrying on business in the Cayman Islands. Category B banks perform several activities, such as private banking, treasury management, trade finance, and wealth management.
- **Restricted Category B banks:** This restricted form of the Category B banking licence limits business to named customers who usually have some connection with each other (i.e., companies within a group).

135. Societies are formed to mainly provide savings accounts and credit facilities to their members. All members are exclusively natural persons residing in the Cayman Islands.

136. As of 31 December 2020,<sup>15</sup> there was a total of 113 deposit-taking institutions in the Cayman Islands, comprising 110 banks, 1 building society, and 2 cooperative societies. The banks were comprised of 9 Category A banks and 101 Category B banks. Of the Category A banks, 6 are retail banks and 3 are non-retail banks. Of all banks combined, 66 are branches and 30 are subsidiaries of established international financial institutions.

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<sup>13</sup> [BIS Statistics - Q4 2020](#)

<sup>14</sup> As defined by Basel - retail refers to natural persons and some qualifying small businesses managed as retail customers

<sup>15</sup> [Banking Services Banking Statistics \(cima.ky\)](#)

137. The remaining 14 are affiliates of international financial institutions or private banks as outlined in Figure 2 below.

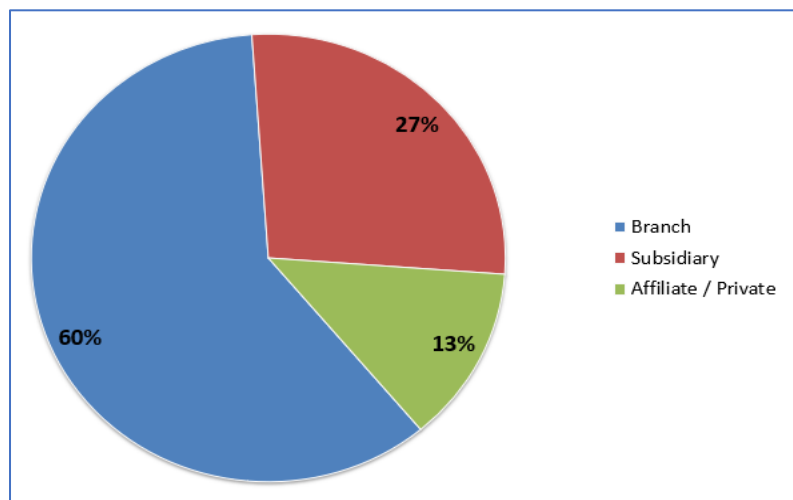


Figure 2: Banks by Structure Type

138. Over the last two decades, banks have continued to consolidate and restructure in pursuit of optimal cost, risk management and governance structures. This has resulted in a steady decline in the number of banks licensed in the Cayman Islands, in particular, Category B licence holders. The repeal of Regulation Q in the United States of America in July 2011 was a main driving factor in this regard. Regulation Q prohibited the payment of interest on demand deposits by institutions that are members banks of the Federal Reserve System which had created a demand by US banks for Cayman Islands Category B licences. Since 2001, the overall banking population has dropped from 426 banks to 110 in 2020, and specifically from 400 to 101 Category B banks reflecting a significant decline in Category B banks. Despite this decline, new Category B licences have been issued and there has been an observed heightened interest in Category A and B licences, especially by large international financial groups, outside of the United States, seeking to leverage on the Cayman Islands' stable offshore banking sector.

139. Despite the above trend, the Cayman Islands continues to be a large financial centre with some foreign and domestic banks licensed and with a wide array of product and service offerings. The high value of cross-border transactions, the value of domestic assets and liabilities in foreign currency, and the international customer base still put the banking sector at the forefront of the fight against ML. The complexity of business models, banking products, transactions and the global interconnectedness of the sector contributes to an elevated ML risk.

## **B-2 Summary of the Assessment by Risk Category**

140. The assessment conducted resulted in an allocation of an overall medium-low risk rating for Category A banks, a medium-high risk rating for the Category B banks and a low-risk rating for the Societies as shown in the table below. The comparatively lower risk rating for the Category A banks (as opposed to Category B banks) reflects the

domestic market, with a predominantly domestic natural person customer base, a lower volume and simpler, oftentimes domestic transactions, and the utilization of comparatively less risky products and services. The low-risk rating for the Societies is attributed to the lack of cross-border customer activity, simple and less risky products and services and a customer base mainly composed of domestic natural persons. The considerations that resulted in these risk scores are detailed in the sections below.

Table 9: Summary of the Assessment by Risk Category

<b>Risk category</b>	<b>Category A Banks</b>	<b>Category B banks</b>	<b>Societies</b>	<b>Overall</b>
Nature, scale, and complexity	Low	Medium-High	Low	Medium-High
Customers	Medium-Low	High	Low	High
Transactions, products and services	Medium-Low	Medium-High	Low	Medium-High
Delivery channels	Medium-Low	Medium-Low	Low	Medium-Low
<b>Overall</b>	<b>Medium-Low</b>	<b>Medium-High</b>	<b>Low</b>	<b>Medium-High</b>

141. The overall sector risk scores are mainly driven by the risk scores of Category B banks because of the larger number of these banks and the materiality of the vulnerabilities arising from the international nature of the sub-sector. However, the lower risk scores for Category A banks and Societies somewhat reduce the overall risk but the reduction does not result in an overall sector score lower than the Category B banks’ scores.

*Risks associated with nature, scale, and complexity*

142. Deposit-taking institutions vary greatly in size from small entities to those with a large global footprint. Most licensees are international Category B banks conducting treasury services for group branches in the Americas, with very few engaging in trade finance. The domestic market is serviced by the Societies and six (6) Category A retail banks that, combined, represent less than 15% of total sector assets hence, there is a higher risk from Category B banks.

143. From a geographic perspective, most bank licensees are branches or subsidiaries of established international financial institutions conducting business in international markets. Collectively, the banks originate from less than fifty countries across the globe as per the distribution below.

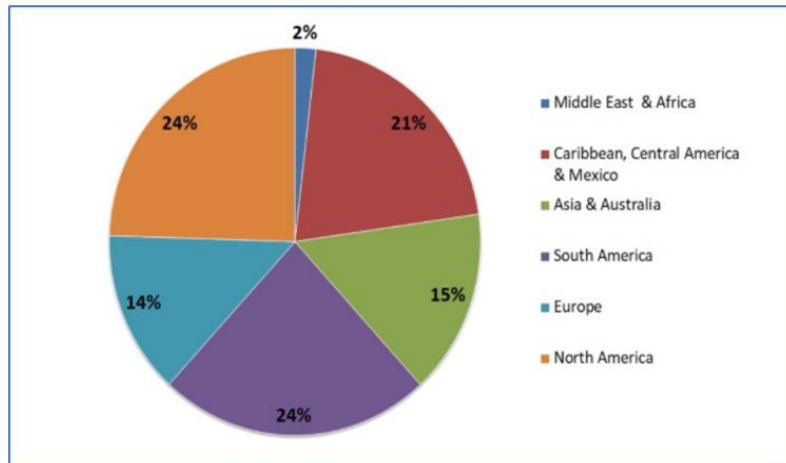


Figure 3: Banks by Region

### *Category A Banks*

144. Category A banks have a strong local presence with retail banks catering predominantly to the domestic and immediate regional market. Structurally, very few Category A banks have ties (parent bank, affiliates, subsidiaries, or branches) with jurisdictions presenting a high geographical risk. Those that do, have historical linkages to other regional financial centres. Overall, category A banks have a low-risk exposure on nature, scale and complexity considerations.

### *Category B Banks*

145. Most Category B banks are branches or subsidiaries of established international financial institutions. About 10% of Category B banks are structurally tied to high geographical risk exposures by way of their ownership or corporate set-up, only a few Category B banks maintain a branch, subsidiary, affiliate or sales office in jurisdictions with a geographical high-risk exposure.

146. One-third of the Category B banks have a local presence in the Cayman Islands, the remaining Category B banks do not have a local presence but are part of globally regulated financial groups. Additionally, one-third of the Category B banks provide exclusively intra-institutional business and are thus considered to have a low inherent risk as they are not conducting business or transactions “for or on behalf of a customer” as set out under the FATF definition of “financial institution”. The rest of the Category B banks provide a wide range of complex services, and some have complex and international ownership structures. While the number of Category B banks has declined, the international nature of the business catered to, the complexity of many Category B group bank structures, the significant number of licensees without a physical presence, and the international control and ownership structure result in medium-high risk classification.

### *Societies*

147. Although the Societies play a key role in the domestic financial system, the size of the Societies’ operations is small when compared to the Category A banks, with total

assets being less than 2% of the total assets for Category A banks. Societies are owned by members composed of natural persons residing in the Cayman Islands. The structure and operations of the Societies are not complex, which translates into a low-risk rating in this category.

### ***Summary for Risk Category – Nature, Scale and Complexity of the Sector***

148. The Cayman Islands is a developed and sophisticated IFC, with established international financial institutions dominating the market. While the number of Category B banks has declined significantly in recent years, a medium-high risk remains for this sub-sector due to the international nature of the business catered to, the complexity of many Category B group bank structures, the significant number of licensees without a physical presence, and the international control and ownership structure. On the other hand, the inherent risk for Category A banks and Societies based on their nature, scale and complexity has been assessed as low. Although the risk factor score for Category A banks and Societies is low risk, the overall deposit-taking institution's sector score has been assessed to be medium-high due to the high number of Category B banks and the higher inherent risks associated with Category B banks.

#### *Customer Risks*

149. Banks serve a broad customer base, including high net worth individuals (HNWIs),<sup>16</sup> Politically Exposed Persons (PEPs), trusts, Not for Profit Organizations (NPOs), and various types of legal entities. Legal entities account for a significant share of the total banking customer base. On the other hand, the customer base for Societies is almost exclusively composed of natural persons residing in the Cayman Islands.

#### *Category A Banks*

150. Category A banks have the most banking customers in absolute numbers. A significant proportion of Category A banks' customer base is domestic natural persons and consistent with the business focus for retail banks. About one-fifth of Category A banks' natural persons' customer base is non-domestic customers. Of the non-domestic natural persons' customer base, only a small percentage present a high geographic risk exposure based on nationality. The natural persons' customer base of Category A banks also includes a small number of HNWIs, PEP customers and beneficial owners, the majority of which are domestic persons, who thereby present a lower inherent risk. International HNWIs and PEPs with high geographical risk exposure account for less than 1% of the total HNWIs and PEPs customers of category A banks.

151. Category A banks customer base also includes governments and various types of legal entities and legal arrangements. The client base comprises about the same proportion of trusts and NPOs customers and cumulatively accounts for a very minimal portion of the customer base. Geographic risk exposure from trusts and NPOs is minimal in terms of the absolute number of customers and asset value. Financial institutions and non-financial institutions account for about 5% of category A banks' total customer base.

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<sup>16</sup> The net worth threshold for High-Net-Worth Individuals is CI\$800K

152. Beneficial owners of Category A banking relationships are predominantly domestic. The international beneficial owners that exist present a limited geographic risk exposure.

153. The domestic legal entities client base is less than 10% of the total Category A banks client base, whereas the respective value of assets is more than half of the total value of assets. Category A banks have a moderate number of TCSP clients accounting for less than one-third of the total value of assets of the domestic legal entities. The domestic client base of DNFBPs that are dealers of precious metals, lawyers, and real estate is almost double the TCSPs client base but accounts for an insignificant portion (less than 1%) of the value of assets. Category A banks' clients who are financial institutions, including banks, are slightly more than double the DNFBPs client base and accounts for a significant portion of the value of assets of the domestic legal entities. Special Purpose Vehicles (SPV) and SEZ clients base is minimal and accounts for less than 1% of the value of assets. The remaining legal entities are fairly low and account for approximately 10% of the value of assets. The foregoing indicates a significant linkage between Category A banks and other domestic legal entities including financial institutions.

154. In sum, the client profile of Category A banks comprises mostly natural and local persons and there is limited exposure to higher risk customer types, such as foreign PEPs, HNWIs, trusts, etc. and a low geographic risk exposure both in absolute terms and value of assets, leading to a medium-low customer risk classification.

#### *Category B Banks*

155. Category B banks have a much smaller share of the banking sector's customers in terms of absolute numbers. However, Category B banks have a far larger share of the international, HNWIs, and corporate customer base. The subsector's customer base is almost exclusively international clients consistent with the license type. The total number of legal entities and legal arrangements customers is slightly higher than the number of natural persons customers.

156. For the natural person client base, a significant percentage is international HNWI, and the percentage of PEP clients is high compared to category A banks. The geographic risk exposure of category B banks is higher than that of category A banks but still limited both in terms of absolute number and asset values.

157. Category B banks' customers' base also includes group-entities and non-group banks, or other financial institutions located abroad, which are generally considered to be a lower risk given that they are licensed, regulated and supervised abroad. Furthermore, legal entities customers involved in higher-risk activities such as SPVs, and companies involved in the defence industry, the oil and gas industry, the mining industry, the shipping industry or the construction and development industry are slightly lower than those of Category A banks. Very few of these relationships have an associated high geographical risk exposure.

158. As in the case of natural person customers, the beneficial owners of Category B banks customer base are predominantly international. Despite the high foreign beneficial owners, the geographical risk exposure associated with this customer segment is limited.

159. The Category B banks total domestic legal entities client base is less than one-third of the respective Category A banks client base. The Category B banks' TCSPs, financial institutions, DNFBPs and SPVs client base are considerably less than the respective customer base for Category A banks. Similarly, the respective value of assets is lower than that of Category A banks except for financial institutions and SPVs where the value of assets is higher. The Category B banks have a much smaller linkage with locally incorporated legal entities.

160. In sum, Category B banks have an almost exclusively international customer base, and larger percentages of HNWI, PEPs, foreign beneficial owners and corporate customers. The fact that the customer geographical exposure risk is limited in absolute terms and the value of assets and that a considerable number of Category B banks focus on foreign institutional group or non-group customers, and as such pose lower risk, is reassuring. Yet, the key drivers of category B banks customer risks are such that a high-risk classification for customer risk exposure of the Category B banks still seems adequate.

#### *Societies*

161. Societies' customer base is almost exclusively composed of natural persons residing and working in the Cayman Islands. The customers are nationals of different countries of which a small number represents a higher geographical risk exposure. However, the nationalities of the customers are consistent with the demographics of expatriates published by the Cayman Islands Economics and Statistics Office.

162. Although the Societies' client base is predominantly domestic, the Societies have insignificant linkage to domestic legal entities both in terms of the number of clients and value of assets. The Societies have an insignificant number of DNFBPs (mainly lawyers and real estate agents) with an insignificant value of assets.

163. The natural persons' customer base also includes a small number of domestic HNWI and PEPs. International HNWI and PEPs are very rare and, in any case, present a limited geographical risk exposure both in absolute terms and value of assets. This translates into low-risk classification as it relates to customers.

#### *Summary for Risk Category – Customer risk*

164. Category A banks have a medium-low customer risk exposure. Most customers are natural and local persons and there is limited exposure to higher risk customer types, such as foreign PEPs, HNWI, trusts, etc. Customers of Category A banks also have a lower geographic risk exposure both in absolute terms and value of assets.

165. The assessment for Category B banks results in a high-risk classification regarding customer risk exposure. The risk drivers are the almost exclusively international customer base, and the large percentage of HNWI, PEPs, foreign beneficial owners and corporate customers. The fact that the geographic risk exposure associated with customers is limited in absolute terms and the value of assets, and that many Category B banks focus on low-risk foreign institutional group or non-group customers means the overall risk rating in this category remains high.



166. The Societies have a low customer risk exposure because the customer base is predominantly composed of natural persons residing in the Cayman Islands and the customers' nationalities are consistent with the Cayman Islands expatriates' demographics.

167. The overall customer risk category score for the deposit-taking sector has been determined to be high due to the materiality of Category B banks for the sector and the higher risk and international nature of many Category B banks' customer base.

### *Transactions and Products/Service Risks*

#### *Category A Banks*

168. Category A banks have a significant number of physical cash transactions both in absolute terms and value of transactions. The main currency<sup>17</sup> of these cash transactions is Cayman Islands Dollars (KYD) by local cash-intensive businesses such as supermarkets, gas stations, restaurants, taxis, tour operators, churches, and a small population of unbanked residents. There were no reported virtual currency transactions. Physical cash deposits generally exhibit higher vulnerabilities of misuse for ML activities but in the context of category A banks, physical cash transactions are exclusively domestic.

169. PEPs conduct a significant number of transactions at Category A banks, but both the PEPs and their transactions are almost exclusively domestic, which somewhat reduces the inherent risk. Only a very small number of transactions conducted by PEPs are cash deposits.

170. Cross-border funds inflows and outflows by Category A banks account for a minuscule portion of the banking sector cross-border inflows and outflows. A significant portion of both inflows and outflows are with developed countries whose ML regimes have previously been positively assessed by FATF. The number of cross-border funds flows representing a higher geographical risk exposure is limited and significantly lower than for Category B banks.

171. Category A banks completed a negligible number of trade finance transactions. Additionally, the value of these transactions was relatively low. The geographical risk exposures from these transactions were also limited in absolute terms and on the value of transactions, and much lower than for Category B banks.

172. Category A banks do not offer omnibus accounts for batch processing. One notable activity conducted by category A banks on a larger scale is foreign currency exchange services attributable to the large tourism industry, domestic reliance on imports, domestic retail lending, and general fund management activities.

173. With regard to correspondent services, a significant value of transactions was completed for non-group respondent institutions who are customers of Category A banks. However, the value of these transactions was significantly lower than similar transactions completed for Category B banks customers and equally the geographic risk

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<sup>17</sup> All monetary values are in KYD unless otherwise stated

exposure associated with such services is lower than for Category B banks. A medium-low risk score is assigned to the transaction and product/service risks for Category A banks.

### *Category B Banks*

174. The cross-border funds' inflows and outflows by the Cayman Islands take place almost exclusively through Category B banks, with the bulk of both inflows and outflows originating from or destined for developed countries whose ML regimes have previously been positively assessed by FATF. However, the value of cross-border funds flows directly to or from a higher risk jurisdiction for Category B Banks is significantly higher than for Category A banks. Furthermore, a significant share of the cross-border flow of funds of the Cayman Islands is with other IFCs such as New York, London, the UAE, Singapore, and Hong Kong. The ultimate destination or origin of the funds could thus still be a high-risk jurisdiction without this being visible in any way from the Cayman Islands' perspective.

175. A significant number of Category B banks focus on treasury management and intra-institutional services as previously outlined. A high-risk activity for Category B banks, which is the provision of omnibus accounts for batch processing, is the second most relevant service offered in terms of annual gross value, followed by investment management and foreign exchange services. Another high-risk product offered by only Category B banks is payable through accounts, although the amounts transacted within the reporting period were very limited. Furthermore, Category B banks offer loans collateralized by cash and back-to-back loans to non-group customers, both of which are high-risk products.

176. Category B banks have a significant number of relationships with respondent institutions. Slightly over half of those established relationships are with institutions that present a higher geographical risk exposure. A significant percentage of the transactions conducted by Category B banks are for non-group respondent institutions, with a small percentage of these transactions having high geographical risk exposure. However, the absolute value of these transactions is high.

177. The volume and amount of the physical cash transactions reported by the Category B banks were minimal compared to the Category A banks both in terms of absolute numbers and values. In addition, the number of transactions conducted by PEPs at Category B banks is much lower than those at Category A banks. Yet, both the value of PEP transactions and the percentage of foreign PEP transactions were significantly higher for category B banks. Although category B banks foreign PEP transactions have a limited geographical exposure risk, the risk associated with such transactions is higher than that of Category A banks.

178. The Category B banks completed a small number of trade finance transactions. Additionally, the value of these transactions was relatively low. The geographical risk

exposure from these transactions was also limited in absolute terms and value of transactions.

179. In summary, category B banks offer products and services that generally are considered to have a higher risk as outlined in the preceding paragraphs, and in practice offer a higher volume of higher-risk transactions, products and services compared to Category A banks, resulting in a medium-high risk rating for Category B banks.

#### *Societies*

180. The Societies operate mainly to provide credit facilities and savings accounts to members. The credit facilities include mortgage loans, auto loans, personal unsecured facilities, among others. The annual lending by Societies is significantly less than the annual retail lending by Category A banks.

181. The number of transactions and their gross values completed by Societies are also significantly lower than the number of transactions and gross values of transactions completed by Category A banks. The Societies do not conduct any cross-border transactions for the customers. Customers who wish to carry out cross-border activities must use a Category A bank.

182. Physical cash deposits for Societies are also significantly lower in absolute terms and value compared to the physical cash deposits by Category A banks. In addition, transactions completed by PEPs at the Societies were significantly lower in absolute terms and value of transactions relative to PEP transactions completed by Category A banks. Although the Societies and Category A focus on the same domestic market, the ML vulnerabilities for Societies are lower due to lower volume than those of Category A banks and lack of cross-border activity, hence a low-risk classification.

#### *Summary for Risk Category - Transactions, Products, and Services*

183. Cayman Islands banks transact with most countries in the world. As discussed above, the transaction risk is higher in Category B banks than in Category A banks as the former process almost all cross-border transactions. However, the risk is somewhat mitigated because the significantly large percentage of cross-border funds flows are intra-institutional or with developed countries that have been positively assessed by the FATF.

184. While both Category A and Category B banks have correspondent relationships with non-group entities and offer products and services that would generally be considered to have a higher risk, Category B banks have a higher volume of high-risk products and services compared to Category A banks. For transactions, products and services, the assessment results in a medium-high risk rating for Category B banks and a medium-low risk rating for Category A banks. The inherent risk in the Societies' transactions, products and services has been assessed as low given the non-complex nature of the products, lack of cross-border customer activity and small size relative to the activities of the Category A banks. The overall risk score for the sector was assessed as medium-high mainly driven by the materiality of the category B banks and the higher

inherent risk vulnerabilities associated with the products, transactions and services offered by the Category B banks.

#### *Delivery Channel Risks*

##### *Category A Banks*

185. Category A banks mostly use traditional face-to-face delivery channels, with most of the existing customers having been onboarded directly by the banks. None of the Category A banks onboard customers via an online platform. Some Category A banks place reliance on eligible introducers within their group whereas only a very small number place reliance on eligible introducers outside their group. The geographical risk associated with eligible introducers is limited, leading to medium-low risk classification.

##### *Category B Banks*

186. A small number of Category B banks offer onboarding services via online platforms. However, a significant number of Category B banks onboard their customers directly. About one-tenth of the Category B banks place reliance on introducers within the group and a smaller percentage places reliance on eligible introducers outside the group. The geographical risk associated with eligible introducers is limited. Category B banks are slightly more exposed to delivery channel risks than Category A banks but still face only a medium-low risk in this category.

##### *Societies*

187. All Societies onboard their customers locally via face-to-face. None of the Societies uses online platforms for customer onboarding. Service delivery is also predominantly face-to-face except few services such as online banking and ATM withdrawals. None of the Societies relies on eligible introducers. The ML vulnerabilities from delivery channels for Societies are significantly lower than those of Category A banks leading to low-risk classification.

#### *Summary for Risk Category – Delivery Channels*

188. Online onboarding and reliance on non-group introducers are limited in the entire sector. Introduction within the group is very common for banks. As such, the risk for delivery channels has been rated medium-low for both Category A and Category B banks. Although the delivery channels risks for Category B banks are slightly higher than for Category A banks, the difference is not significant enough to result in a risk score higher than that of Category A banks. The risk for the Societies has been assessed as low because all customers are onboarded locally via face-to-face. The overall sector risk score was determined to be medium-low because of the greater materiality of the Category A and Category B banks.

#### *Conclusion*

189. The analysis and assessment of the inherent risks associated with deposit-taking institutions resulted in the overall risk rating for the Category A banks of a medium-low, medium-high score for Category B banks and low-risk score for the Societies. The

consolidated overall sector risk score was determined to be medium-high due to the materiality of the Category B banks relative to the other two sub-sectors.

II.2.c. *Securities Sector*

Table 10: Summary of Securities Sector ML/TF Risk Scores

<b>Sub-Sector</b>	<b>2021 Risk Score</b>
Licenseses	Medium-High
Registered Persons	Medium-High
<b>Overall Sector Score</b>	Medium-High

190. The Cayman Islands securities sector is composed of CIMA regulated securities intermediaries, including securities investment business licensees (Licensees), registered persons (RPs), securities issuers and the Cayman Islands Stock Exchange (CSX). For the inherent risk rating, only licensees and registered persons were considered as CIMA has supervisory powers over and collects inherent risk data for only these sub-sectors. To obtain a comprehensive risk understanding, however, Part B of this section also elaborates on the inherent risk associated with securities issuers and the CSX.

191. Funds are the most material part of the Cayman Islands financial sector. The securities sector is large and economically important, representing the second-largest financial industry sector in the Cayman Islands in terms of assets under administration. Licensees and Registered Persons (collectively referred to herein as “Regulated SIBs”) administer at least US\$1.283 trillion in assets. Registered Persons represent a total of at least US\$1.266 trillion or approximately 99% of assets under administration by regulated SIB entities, principally relating to private funds and mutual funds. Licensees represent a total of at least US\$16.9 billion of assets under administration. Consistent with the Cayman Islands’ status as an international financial centre, a significant majority of the sector involves non-resident customers.

192. Securities Investment Business (“SIB”) conducted in and from the Cayman Islands includes dealing in securities, arranging deals, investments management, and provision of investment advice. The Securities Investment Business Act (2020 Revision) (“SIBA”) provides for the regulation of persons engaged in these activities in or from the Cayman Islands, including market makers, broker-dealers, securities arrangers, securities advisors, and securities managers. Such persons must be licensed by CIMA, unless they meet the criteria to not be licensed, in which case they are regulated as Registered Persons. Registered Persons conduct SIB exclusively for institutions, HNWIs, or sophisticated customers.

*Licenseses*

193. Licensees carry out SIB in the manner depicted in the figure below. Twenty-nine licensees carry out multiple SIB activities. Single-family offices (“SFOs”) that conduct SIB are required to be licensed or registered with CIMA but there are currently none that have applied to be licensed.

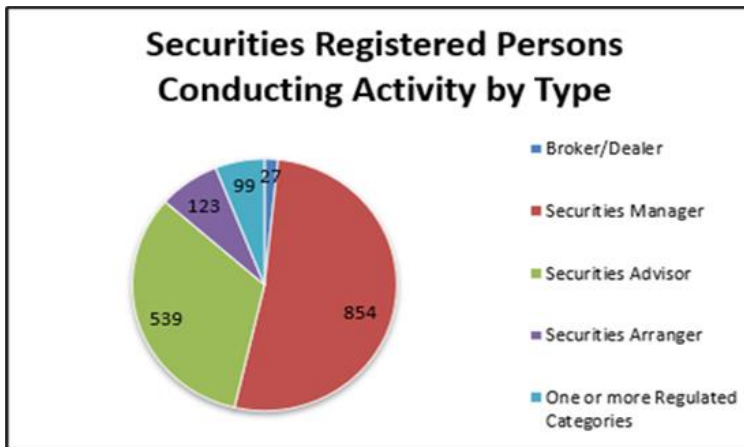


Figure 4: Securities Licensees by Type of Activity

### Registered Persons

194. The amendments to the SIBA (which were gazetted on 16 January 2020) endowed CIMA with supervisory, inspection and enforcement powers to regulate Registered Persons more effectively. These amendments took effect on 18 June 2019. Registered Persons, formerly operating under the “Excluded Person” category, were required to apply to CIMA by 15 January 2020 to transition to a new category of “Registered Person,” while all new applicants from 18 June 2019 onward were registered as Registered Persons.

195. Registered Persons carry out SIB in the following manner, as depicted in the chart below. Ninety-nine Registered Persons carry out multiple SIB activities. Approximately 29% of Registered Persons are SFOs.

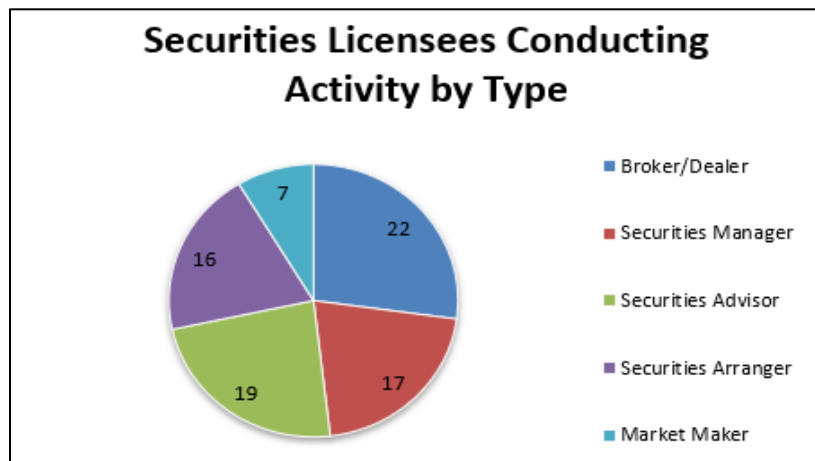


Figure 5: Securities Registrants by Type of Activity

Table 11: Summary of the Assessment by Risk Category

<b>Risk category</b>	<b>Licensees</b>	<b>Registered Persons</b>	<b>Overall</b>
Nature, scale, and complexity	Medium-High	High	Medium-High
Customers	Medium-High	Medium-High	Medium-High
Transactions, products and services	Medium-High	Medium-High	Medium-High
Delivery channels	Medium-High	Medium-High	Medium-High
<b>Overall</b>	<b>Medium-High</b>	<b>Medium-High</b>	<b>Medium-High</b>

*Risks Associated with Nature, Scale, and Complexity*

196. Regulated SIBs vary greatly in size and business activities. Licensees are permitted to provide SIB services to all market participants whereas Registered Persons are only permitted to deal with sophisticated and high-net-worth persons including institutional investors or entities owned by such persons. Registered Persons represent a significant majority of the SIB market both in terms of regulated entities and assets under administration.

197. 42 licensees provide a range of licensable activities conducted in or from within the Cayman Islands. Licensees range from small-owner managed operations to large global organizations. Licensees administer approximately US\$16.9 billion in assets under administration in comparison to the Registered Persons with US\$1.266 trillion. Therefore, although licensees are subject to a greater level of regulatory oversight due to their ability to provide services to all customer types, they represent a much smaller segment of the Cayman Islands securities market.

198. There are 1,642 Registered Persons which provide a range of licensable activities conducted in or from within the Cayman Islands. Most Registered Persons carry out SIB as securities advisers and securities managers, generally to registered funds (most of which are structured as master/feeder funds) set up in the Cayman Islands or lower-risk jurisdictions.

199. Most licensees and Registered Persons have an entity within their group (parent, affiliate and/or subsidiary) structure that is based outside of the Cayman Islands, primarily in lower-risk jurisdictions. There is foreign ownership of Regulated SIBs including a small percentage of shareholders from high-risk jurisdictions. Some licensees' and Registered Persons' senior officers, beneficial owners or shareholders are PEPs.

200. In conclusion, licensees and Registered Persons are similar in nature and complexity, but due to the much larger size of Registered Persons' assets under

administration and the number of customers, they have been rated as high-risk while licensees have been rated **medium-high**.

#### *Customer Risks*

201. Licensees and Registered Person both have a large non-resident customer base with wide geographic dispersion, with most of their customers located outside of the Cayman Islands. Yet the profile of the customer base differs significantly between the two sub-sectors.

202. Licensees that operate trading platforms have a relatively high number of customers; however, these customers engage in small transactions and represent a small number of assets under administration when compared to other licensee customers. Further, the level of assets under administration represented by these customers is extremely small in comparison to the assets under administration for Registered Person customers. This profile applies also to customers in higher-risk jurisdictions, which may be more numerous in absolute terms but receive predominantly online trading platform services relating to small transactions.

203. In contrast, Registered Persons are only permitted to provide services to an enumerated customer base including HNWI and sophisticated persons, with a significant proportion of institutional investors. There are also a significant number of Registered Persons that are SFOs. Many Registered Persons' customers are therefore generally considered to carry a medium-high risk. Both licensees and Registered Persons have a small number of PEP customers.

204. Generally, the cross-border nature of the Cayman Islands securities industry poses an increased customer risk from an ML/TF perspective for Regulated SIBs. Although a significant majority of Registered Person customers are in non-high-risk jurisdictions, these customers represent a large number of assets under administration and their customer types (e.g., institutional, HNWI, sophisticated, SFO) are considered a medium-high risk. Licensees' customers have a much smaller amount of assets under administration and are mainly individuals, however, there is a higher proportion of customers from higher-risk jurisdictions and therefore they have also been assigned a **medium-high** risk rating.

#### *Transactions and Products/Service Risks*

205. There is a wide range of transactions, products and services provided by Regulated SIBs. Licensees have a varied product offering, with a small number of licensees that operate online trading platforms offering contracts for difference ("CFD") representing a majority of customers and transactions executed but a relatively small percentage of assets under administration. Most Cayman Island licensees offer traditional asset administration including discretionary and non-discretionary customer accounts and advisory services. These licensees, which represent a significant majority of assets under administration, are considered to be lower risk than licensees operating trading platforms.



206. Registered Persons are far more numerous than licensees and tend to have large amounts of assets under administration, with over half of Registered Persons having more than US\$100 million in assets under administration. Registered Persons provide a range of services, with securities manager activities representing over half of the services provided. These services are largely provided to regulated funds.

207. Due to the wide range of transactions, products and services offered by Registered Persons, some of which pose higher ML/TF risks, this category is assigned a medium-high rating. Certain licensees offer higher risk products such as CFDs through trading platforms, however, they represent a relatively small amount of assets under administration. As a result, licensees have also been assigned a **medium-high** risk rating for this category.

#### *Delivery Channel Risks*

208. Licensees onboard most of their customers directly albeit a significant percentage of these customers were onboarded through non-face-to-face interaction. Non-face-to-face delivery channels include the use of intermediaries, introducers, or offerings through online trading platforms. Many of these onboardings are through trading platforms servicing foreign customers. Therefore, as discussed above some licensees use higher-risk delivery channels and have a relatively large number of customers.

209. Registered Persons onboarded approximately half of their customers directly, with a higher percentage of those customers being onboarded through face-to-face methods. Customers were also onboarded through non-face-to-face methods such as by way of eligible introducers, referrals within the group and other introducers.

210. The main payment channel used by the licensees is international wire transfers. Licensees reported that they do not accept physical cash, travellers' cheques, bearer shares or virtual currencies (crypto or other). However, some licensees offering trading platforms accept prepaid cards or third-party payments.

211. The main payment channel used by Registered Persons is international wire transfers with a very small percentage of Registered Persons accepting payment through high-risk channels.

212. In respect of fund flows, Regulated SIBs reported that flows of customer funds were primarily to and from lower-risk jurisdictions. However, there were some flows of funds to and from high-risk jurisdictions.

213. Given that Regulated SIBs engage in some higher-risk delivery channels the rating assigned for this category is a **medium-high** risk.

#### **Overall Conclusion**

214. Due to the large size and highly international nature of the Cayman Islands securities investment business sector, regulated SIBs are considered to have a medium-high risk. Amendments to the SIBA to effectively regulate the formerly Excluded Persons as Registered Persons have significantly reduced potential ML/TF risks within this subsector. However, due to a large number of assets under administration and the high

proportion of cross-border activity, the sub-sector continues to face a medium-high inherent risk.

### *Part B – Securities Issuers and the Cayman Stock Exchange*

#### *Securities Issued by Cayman Island Entities*

215. The Cayman Islands has a large securities issuance market, including 10,614 Cayman legal entities that issue securities listed on domestic or foreign exchanges. There are also securities issuances involving Cayman entities that are not listed on an exchange. These issuances may occur on a private placement basis, through trading platforms or over the counter markets. Entities that issue securities, other than regulated funds, do not usually fall within the ambit of CIMA’s prudential oversight by being excluded activities under Schedule 3 of SIBA. However, securities issuers and relevant service providers are RFB under POCA, and as such are required to comply with the AMLRs and the General AML/CFT/CPF Guidance provided in Part II of CIMA’s Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands, 5 June 2020. Further, securities which are listed on the CSX are subject to AML/CFT safeguards and those listed on foreign exchanges would be subject to the local listing requirements of those jurisdictions.

216. Although securities issued from the Cayman Islands could be sold domestically through Regulated SIBs, most are likely sold to investors in foreign jurisdictions through foreign securities intermediaries or directly. Therefore, CDD on investors in securities issued by Cayman Islands issuers may be performed by intermediaries regulated in a foreign jurisdiction or by the securities issuer itself. There is some geographic ML/TF risk associated with the reliance on foreign regulation of intermediaries depending on the jurisdiction of foreign investors.

217. Further, securities (that are not regulated funds) issued through private placements from the Cayman Islands to investors in foreign jurisdictions are not subject to prudential oversight in the Cayman Islands, or domestic or foreign listing requirements, and therefore may pose a risk that securities issuances could be conducted fraudulently, creating the risk that profits could be generated from illegal activity and concealed through money laundering. There is also a risk that issued securities could be purchased using the proceeds of crime.

#### *Securitization Issuances*

218. An important subsector of the Cayman Islands securities issuance market is the securitization industry. The largest segment of the securitization market is collateralized loan obligations (“CLOs”), which accounted for approximately US\$85 billion in issuance in 2020. The Cayman Islands has 3075 companies that are securitization special purpose vehicles (“SPVs”) established to issue securities.

219. Securitization issuances present similar ML/TF customer risks as other securities issuances from an investor perspective. Certain securitization transactions can also present ML/TF risks at the origination stage. In circumstances where a sponsor originates assets or purchases assets before selling them to a SPV, the sponsor may have

procured the assets to be pooled using laundered funds or otherwise have illegitimately obtained the asset or may have misrepresented the source of the assets.

220. However, CLOs, which form most of the Cayman Islands securitization market may present lesser ML/TF risks because of the involvement of regulated financial institutions, their issuance through global clearing systems, the involvement of rating agencies who evaluate the transactions (including the relevant asset receivables), and the transparent source of the receivable assets (i.e., syndicated corporate loans). Further, there is a range of financial service providers who participate in securitization transactions and perform CDD including, for example, the share trustee, indenture trustee, placement agent as well as financial service provider(s) responsible for incorporating the issuing company and administering subscriptions and redemptions.

#### *The Cayman Island Stock Exchange (CSX)*

221. The CSX was established under The Cayman Islands Stock Exchange Company Act, 1996 and provides a listing and trading facility for corporate, insurance-linked and specialist debt securities, investment funds and equities. The Act confers self-regulatory powers on the CSX as an exchange, subject to supervision and regulation by the Stock Exchange Authority. The Stock Exchange Authority is an autonomous body established under the Act as the dedicated regulator for the CSX.

222. The CSX currently lists more than 6,500 securities and maintains a market capitalization of more than US\$645 billion. Although there is a very small amount of trading, the CSX is primarily a listing exchange and the admission of securities to listing on the CSX is governed by the CSX's Listing Rules, which also provide detailed requirements for the continuing obligations of issuers, the enforcement of those obligations, and the suspension and cancellation of listings. For a security to be accepted for listing on the CSX, AML/CFT due diligence is required. Most of the securities listed on the CSX are introduced by the CSX's registered listing agents. These listing agents are required to complete CDD in compliance with all relevant laws.

223. Trading on the CSX is extremely limited, and the CSX is not involved in the clearing or settlement of any securities, or the receipt or distribution of funds associated with any securities. Therefore, ML/TF risks associated with the CSX are low.

#### *II.2.d. Mutual Fund Administrators*

Table 12: Overall ML Risk Score for the Mutual Fund Administrators Sector

<b>Sector</b>	<b>Risk Score</b>
Mutual Fund Administrators	Medium-High

224. The focus of the risk assessment is on regulated fund administrators, which comprise Full and Restricted licensees.

225. The investments sector is directly regulated by the CIMA through the Mutual Funds Act (as revised) (the “MFA”), as well as any regulations made under the Monetary Authority Act (as revised) (MAA) and the AMLRs.

226. A mutual fund administrator is a legal person who conducts mutual fund administration as defined in the MFA, that is, a person managing (including controlling all or substantially all of the mutual fund’s assets) or administering a mutual fund; a person providing the Principal Office of a mutual fund in the Cayman Islands; or providing an operator to the mutual fund as defined in section 2 of the MFA (a trustee of a unit trust, a general partner of a partnership or a director of a company). As MFAs provide these services to regulated funds under the MFA and the Private Funds Act (PFA), the reference throughout the remainder of the outline will be to “fund administrators.”

227. As of 31 December 2020, there were 75 licensed fund administrators. Of these, 66 held full fund administrators Licenses and the remaining 9 held Restricted Fund Administrators Licenses (see Table 1: Sectors and Entities Supervised by CIMA December 2020). The MFA describes the 2 categories of fund administrators licenses as follows:

- the Full Fund Administrators licence authorizes the holder of the licence to act or carry-on business as a fund administrator in respect of an unlimited number of regulated funds.
- the Restricted Fund Administrators licence authorizes the holder of the licence to act or carry-on business as a fund administrator solely in respect of the regulated mutual funds specified from time to time in the licence.

228. The overall risk score for Fund Administrators is **medium-high**.

Figure 6: Number of Fund Administrators by Category, 2016 – 2020

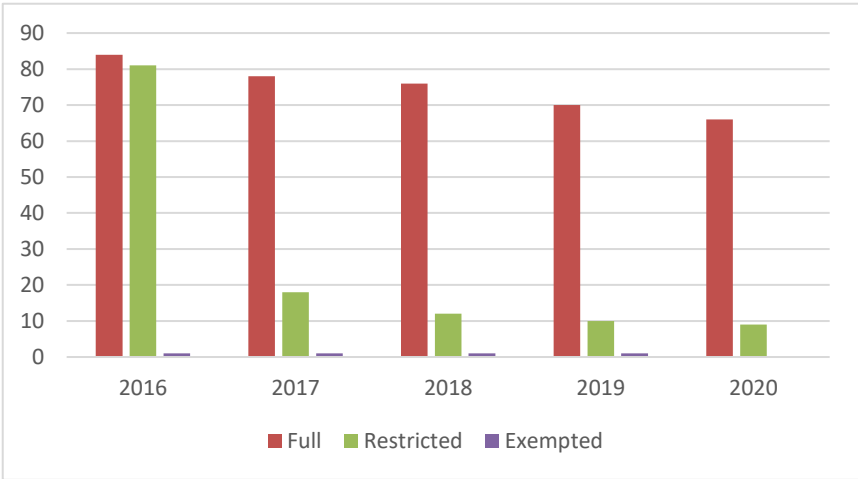


Table 13: Summary of Assessment by Risk Category

Risk category	Mutual Fund Administrators
Nature, scale, and complexity	Medium-High
Customers	Medium-Low
Transactions, Products and Services	Medium-High
Delivery channels	Medium-High
<b>Overall</b>	<b>Medium-High</b>

*Risks Associated with Nature, Scale, and Complexity*

229. Fund administrators are responsible for servicing both mutual and private funds. 62% of these funds are private funds.<sup>18</sup> Fund administrators process subscriptions and redemptions, capital commitments and the corresponding contributions and withdrawals, undertake client due diligence and ensure compliance with anti-money laundering procedures, process dividend and distribution payments and reconcile and report fund transactions. The fund administrators surveyed reported total assets under administration (AUA) of US\$2.157 trillion. The nature and complexity of business, particularly the registrar and transfer agency (RTA) services, the high volume of transactions and the use of non-face to face contact through referrals or introducers have resulted in the investments sector being assigned a **medium-high** risk rating.

230. Fund administrators include small boutique offices as well as larger global operations, where for example RTA services are provided in-house and net asset value (NAV) calculation services are outsourced to subsidiaries across the world. In some cases, services are outsourced to high-risk jurisdictions making it possible for the risk of money laundering and terrorist financing to materialize.

231. The global locations of investors, the complexity of the fund structures, and the high value of assets under administration contribute to an increased inherent risk of money laundering in this sector.

232. In respect of the ownership and control structure for fund administrators, most parent companies are in countries not considered high risk for AML/CFT purposes. Based on these factors, the overall risk in this category is assessed as **medium-high**.

*Customer Risks*

233. Most funds, assets and investors are located in non-high-risk jurisdictions, predominantly the Cayman Islands and North America. In respect of the fund administrators' customers/clients, which would be the funds inclusive of the investment manager/Promoter, almost all are companies, partnerships, or trusts, incorporated in jurisdictions with equivalent AML/CFT frameworks.

234. The Cayman Islands is the top location for providing RTA and NAV calculation services to regulated mutual funds.

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<sup>18</sup> Changes to legislation (introduction of the Private Funds Act in 2020) now include the regulation of private funds.

235. Regarding the investors in the funds, most investors are either institutional investors or individuals other than HNWI. Of the higher risk classes of investors, there is a minimal number that are HNWI, nominee shareholders and trusts and PEPs. It should be noted however that of the PEPs, 91% are from non-high-risk jurisdictions. Considering the above factors, the customers of fund administrators were assessed as **medium-low** risk.

*Transactions and Products/Service Risks*

236. The services that are provided by mutual fund administrators in the Cayman Islands include RTA services, NAV calculation, directorship services, tax reporting [The Foreign Account Tax Compliance Act (FATCA); Common Reporting Standard (CRS)], and provision of registered office and principal office. The predominant service provided by the fund administrators, RTA services, exposes the sector to a greater inherent risk of money laundering due to the nature of the process, which involves receiving and distributing proceeds from investors. The RTA services are the front office services for vetting investors into and out of the funds, which is critical to managing the ML/TF risks. NAV, which is a middle office service, deals mainly with the calculation of the value of the assets and reporting functions and as such has lower ML/TF inherent risks.

237. For the reporting period covered by the survey, 1 July 2018 to 30 June 2019, data from the fund administrators indicated \$350 billion in subscriptions, \$328 billion in redemptions and \$63 billion in transfers, of which a minimal amount was linked to higher risk investors (PEPs).

238. Based on the analysis above and given the prevalence of the service offering and size of the industry, the inherent risk exposure in the category transactions, products and services risks is **medium-high**.

*Delivery Channel Risks*

239. Delivery channels for fund administration generally include face to face and non-face-to-face channels, with the majority utilizing non-face-to-face. Non-face-to-face channels include offering services via online mechanisms or using agents, intermediaries, or introducers. The risks assessed for delivery channels are deemed medium-high. Due to the large size and highly international nature of the Cayman Islands investments sector, it has been categorized as **medium-high risk**.

*II.2.e. Insurance Sector*

Table 14: Risk Scores of the Cayman Islands’ Insurance Sub-sector with ML/TF Risk Exposure

<b>Sub-Sector</b>	<b>Risk Score</b>
Long term direct life	Medium-Low
Intermediaries (brokers & agents)	Medium-Low
Insurance Managers	Medium-High
ILS	Medium-Low
<b>Overall Sector Score</b>	<b>Medium-Low</b>

240. The insurance sector is important to the jurisdiction. It is the second-largest Captive Insurance domicile in the world, with gross premiums amounting to US\$19 billion. The Cayman Islands insurance sector has two distinct parts: domestic insurance and international insurance.

*Domestic*

241. The domestic insurance segment comprises 26 insurance companies offering life, general and health insurance to Cayman Islands residents and businesses (categorized as Class A insurers). This segment is supported by 23 licensed insurance brokers, ranging from brokers offering products to retail customers to those offering risk management and insurance solutions to large and sophisticated clients. In addition, 44 licensed insurance agents, mostly individual agents, solicit insurance products in the domestic market.

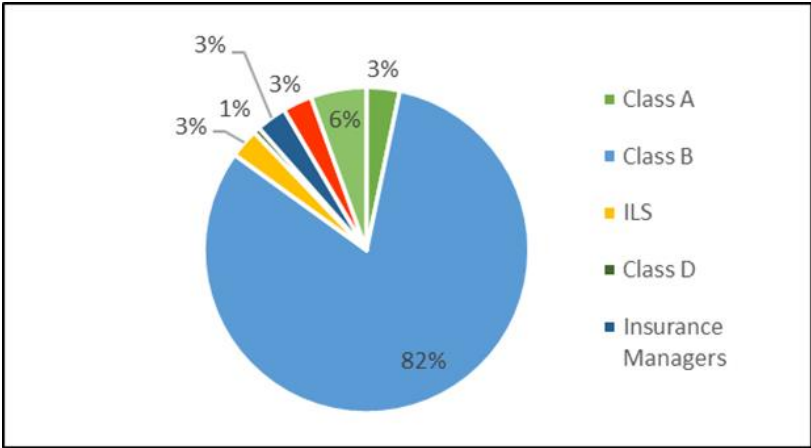


Figure 7: Total Insurance Licensees by Category

*International*

242. The international insurance segment consists of 646 insurance companies and 24 licensed Insurance Managers. This segment is made up of approximately 475 captive insurers (categorized as class B(i) and B(ii) insurers) providing coverage to its shareholders’ and affiliates’ risks, approximately 143 insurers (categorized as class B(iii) insurers) providing coverage to non-affiliated insureds, 23 reinsurers engaged in insurance-linked securities (ILS) business, largely catastrophe bonds (categorized as class C insurers), and 5 reinsurers engaged in open-market reinsurance business with a class D insurer licence. Insurance management companies are those incorporated and physically based in the Cayman Islands providing management services to international insurers with no physical presence. Over 95% of the international sector insurers are managed by an insurance Manager.

243. To assess the inherent ML/TF risks that the sector faces, it is important to note at the outset that approximately 95% of the Cayman-based insurance companies both in terms of the number of companies and premium values carry on only general insurance

activities including (re)insurance of property and casualty insurance business such as Medical Malpractice Liability, Workers Compensation, general and product liability, property, accident and health. While some general insurers and reinsurers have been integrated into the assessment of the insurance sub-sectors with the ML/TF exposure table below (Table 15: Summary of Insurance Sub-Sectors Assessment to ML/TF Exposure by ), the exposure of these sub-sectors to ML/TF risks is minimal as products are typically short-term contracts for long-tail (liability) risks.

244. Only 5% of the Cayman-based insurance companies carry on life insurance business on a direct basis, including investment-linked life insurance products, to mortgage/credit protection life insurance and term life insurance with no cash surrender values. In terms of premium income, direct life insurers accounted for approximately 4% of the total premium income of approximately US\$18 billion. The long-term direct insurers selling products locally are supported by 5 Insurance Brokers and 17 Agents who solicit business on their behalf. The long-term direct insurers selling products internationally are managed by 7 Insurance Managers. In addition, approximately 23 reinsurers engaged in the insurance-linked securities business (“ILS”) (3%) wrote approximately 2% of the total US\$18 billion premium income in 2019. Even though such insurers carry-on property reinsurance business, they typically issue bonds to sophisticated/regulated capital markets to raise capital, which exposes them to ML/TF risks. Accordingly, only these four sub-sectors with some level of exposure to ML/TF have been considered for this assessment.

245. As presented in below, ML/TF inherent exposures result from the long-term direct insurers (5% of the total insurer licensees conducting insurance business, long term and general), Intermediaries (2% of the total licensees), Insurance Managers (1% of the total licensees) and reinsurers carrying on ILS business (3% of the total insurer licensees).

Table 15: Summary of Insurance Sub-Sectors Assessment to ML/TF Exposure by Risk Category

<b>Risk category</b>	<b>Direct Long- term insurers (5%)</b>	<b>Intermediaries (22%)</b>	<b>Insurance Managers (29%)</b>	<b>Insurance-Linked Securities (ILS) (3%)</b>	<b>Overall sub-sector rating</b>
Nature, size, and complexity	Medium-Low	Low	Medium-Low	Medium-Low	Medium-Low
Customers	Medium-Low	Medium-Low	Medium-High	Low	Medium-Low
Transactions and Products/services	Medium-High	Medium-Low	Medium-High	Medium-Low	Medium-High
Delivery channels	Medium-Low	Low	Medium-Low	Low	Medium-Low
<b>Overall</b>	<b>Medium-Low</b>	<b>Medium-Low</b>	<b>Medium-High</b>	<b>Medium-Low</b>	<b>Medium-Low</b>



## *Risks Associated with Nature, Scale, and Complexity*

### *Direct Long-Term Insurers*

246. Long-term direct insurance premiums account for 4% of the total premium and this remained stagnant in the last few years. Most of the life products issued on a direct basis domestically are to Cayman Islands' residents and are not complex. Such products include mortgage protection, credit life and life insurance policies with investment features. Most domestic long-term direct insurers are either a subsidiary, branch or affiliate of an international group with a strong physical presence. Very few long-term direct insurers have ownership ties to jurisdictions that have high geographical risk. Approximately 50% of the domestic long-term direct insurers utilize Intermediaries based in the Cayman Islands to solicit business on their behalf. Overall, long-term domestic direct insurers have a low-risk exposure on nature, size and complexity considerations.

247. On the other hand, international direct life insurers issued complex life insurance products such as universal life, annuities, and private placement life insurance (PPLI) to ordinary and sophisticated policyholders globally. Most international life insurers are a part of international groups, sometimes complex and with significant utilization of global intermediaries or introducers to solicit business. Considering the international clientele, complex group structures and reliance on intermediaries and introducers, the international direct long-term insurers have a medium-high exposure on nature, size and complexity considerations.

248. As a result, the nature, size and complexity of all direct long-term insurers domiciled in the Cayman Islands have been assessed as **medium-low** risk.

### *Intermediaries*

249. Although Insurance Brokers play a key role in the domestic insurance sector, less than 5% of the long term domestic direct insurers utilize Insurance Brokers to distribute their products. Additionally, 10% of the long term domestic direct insurers utilize Agents to distribute their products. The products distributed by Intermediaries on behalf of long-term direct insurers are non-complex, with Intermediaries being domestically based in the Cayman Islands, resulting in a **low** risk.

### *Insurance Managers*

250. Over 86% of the international<sup>19</sup> direct life insurers and over 90% of ILS vehicles are managed by Insurance Managers who manage the business and maintain the books and records in the Cayman Islands. Considering their clients' international clientele, complex life products issued, complex group structures, sophisticated investors and Ultimate Beneficial Owners and heavy reliance on intermediaries and introducers, the Insurance Managers of these insurers and reinsurers have a medium-low exposure nature, scale and complexity considerations.

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<sup>19</sup> 'International' refers to non-resident insurance companies and insurance managers

## *ILS*

251. Most of the reinsurance companies engaged in ILS business provide property catastrophe coverage to regulated ceding insurers in lower-risk jurisdictions and pass the insurance risks to capital markets via bond issuances and in almost all cases to regulated and sophisticated institutional investors such as pension funds. The size of the bonds issued to support exposure limits can be sizeable. A medium-low risk rating has been determined for ILS vehicles based on the nature, size and complexity risk consideration.

### *Summary for Risk Category – Nature, Size, and Complexity of the Sector*

252. The long-term insurers within the sector vary depending on the nature and complexity as a result of dependency and location of Intermediaries utilized and complexity of products offered. Long term insurers are similar in size, given that both the long term direct international and long term direct domestic account for a small percentage of the premiums in the sector, less than 5%.

### *Customer Risks*

#### *Direct Long-Term Insurers*

253. Customers of the long term domestic direct insurers are limited to the residents of the Cayman Islands, therefore the number of customers in this sector is smaller in comparison to the long term international direct sector. Only 2% of the long-term direct insurers reported issuing policies for which a Trust or similar Legal arrangement is an insured and 3% reported issuing policies for which a Trust or similar Legal arrangement, predominately located in lower risk jurisdiction, is a beneficiary, which demonstrates that a significant portion of the policies issued provides insurance coverage or services to natural or legal domestic persons presenting a lower inherent risk.

254. Customers of the Long term international direct insurers subsector are almost exclusively international, therefore by nature, this sector has the largest customer base with inherently higher geographic risk exposure. Less than 1% of the customers in the subsector are PEPs. Additional higher risk customers in the subsector include HNWI, Sophisticated persons, Trusts and Charitable Organizations. Additionally, 1% of the sector provides insurance coverage of services to Trusts or similar types of legal arrangements. A medium-high customer risk for this subsector has been determined.

255. As a result, the customer risk of all direct long-term insurers domiciled in the Cayman Islands has been assessed as **medium-low**.

#### *Intermediaries*

256. Customers of Intermediaries represent the customers of the long term direct domestic subsector as intermediaries solicit these customers on behalf of the sub-sector. Therefore, a medium-low risk has been determined for the Intermediaries customer risk classification.

### *Insurance Managers*

257. Customers of Insurance Managers are companies in the long term international direct insurer subsector, which issue complex life insurance products in the international market, through insurance intermediaries and introducers, including PEPs, HNWI, Sophisticated persons, Trusts and Charitable Organizations. Insurance Managers act as the place of business for these clients. Therefore, a **medium-high** risk has been determined for the Insurance Manager customer risk classification.

### *ILS*

258. ILS insurance products are offered to cedant insurers - regulated United States Insurers, sophisticated/regulated institutional investors and are not considered high risk for ML/TF exposure. Almost all ILS issued bonds are issued to sophisticated institutional investors such as regulated pension funds to raise capital. Therefore, a **low** risk has been determined for the ILS customer risk classification.

### *Summary for Risk Category – Customer Risk*

259. Direct long-term insurers within the sector present similar inherent risks for customer risk, given that the customers are derived from similar sources, particularly for Direct Long term direct insurers and Intermediaries. Customers of Insurance Managers are the direct long-term insurers and ILS vehicles with some level of exposure to ML/TF risks. ILS customers are institutional investors and cedent insurers. The overall rating for customer risk is **medium-low**.

### *Transactions and Products/Service Risks*

#### *Direct Long-Term Insurers*

260. Life insurance products issued by long term insurers include mortgage protection, credit life and life insurance policies with investment features. None of the long-term direct insurers or ILS reinsurers used digital assets and/or cryptocurrency at any stage of the insurance product/service. Domestic Life and annuity premiums accounted for 4% of the total premiums in the sector. Single payment premium, cash surrender value and additional top-up featured policies are minimally utilized within the subsector. Few policies are purchased by PEPs and HNWI. Smaller premium payments are offered by the subsector to the domestic market as a means of servicing residents of the Cayman Islands. Bank transfer or direct debit transactions were the most frequently utilized methods of payment. Cash payments, which have a higher level of vulnerability for ML/TF activities, follow behind bank transfers and direct debit transactions, are exclusively domestic. A medium-low risk rating has been assigned to the transactions and product/services risks for the subsector.

261. Several international direct long term insurers issue policies that have trusts or similar legal arrangements as policyholders, or beneficiaries which are considered 'high risk' from a money laundering/terrorism financing perspective. Half of the long term direct international insurers offered products that feature single payment premiums and cash surrender value policies. Additional top-up structured policies are also minimally featured in the subsector. Most PEPs and HNWI clients are issued policies through long-

term direct international insurers. Due to the nature of the international landscape, premium payments are predominantly facilitated through wire transfers, bank drafts or cheques. Cash payments are not utilized in the subsector. A medium-high risk rating consideration has been assigned to the transactions and product/services risks for the subsector. As a result, transaction, product/services risk of all direct long-term insurers domiciled in the Cayman Islands have been assessed as **medium-high**.

#### *Intermediaries*

262. Intermediaries offer products on behalf of the long-term direct insurers in the domestic market. As such the products offered by this subsector are the same products offered in the domestic sector. Intermediaries do not assume the risk from these products but act as facilitators to access products of long term domestic direct insurers. These products include mortgage protection, credit life and life insurance policies with investment features to residents of the Cayman Islands. Single payment premium, cash surrender value and additional top-up featured policies are minimally utilized within the subsector. Few policies are facilitated for PEPs and HNWI. Smaller premium payments are offered by the subsector to the domestic market as a means of servicing residents of the Cayman Islands. Bank transfer or direct debit transactions were the most frequently utilized methods of payment. Cash payments, which have a higher level of vulnerability for ML/TF activities, follow behind bank transfers and direct debit transactions but are exclusively domestic. A **medium-low** risk rating has been assigned to the transactions and product/services risks for the subsector.

#### *Insurance Managers*

263. Insurance Managers represent their clients, the long term international direct insurer and ILS subsectors which issue complex life insurance products in the international market, through insurance intermediaries and introducers, including to a significantly higher portion of PEPs, HNWI, Sophisticated persons, Trusts and Charitable Organizations. Insurance Managers service the customers of their clientele. A **medium-high** risk rating has been assigned to the transactions and product/services risks for the subsector.

#### *ILS*

264. 95% of ILS vehicles provide property catastrophe coverage with bond issuances to institutional/regulated investors primarily funded through wire transfers. Bonds typically have short maturity dates equivalent to the duration of the structure. Sophisticated institutional investors such as regulated pension funds raise capital to support a fully collateralized vehicle. Considering the high dollar value transactions, a **medium-low** risk rating has been assigned to the ILS subsector.

#### *Summary for Risk Category – Transactions, Products and Services*

265. The transaction, products and service risks are differentiated within the long-term insurers within the sector. Direct Long term direct insurers offer products that are non-complex, estate planning products and facilitate payments through bank transfer and direct debit with a smaller percentage of the use of cash. Their supporting Intermediaries reflect similar use of payment methods. The long-term international

insurers issue policies that have trusts or similar legal arrangements as policyholders or beneficiaries. Products are offered that feature single payment premiums and cash surrender value policies. Insurance Managers provided insurance expertise to their long-term international insurers. ILS customers are institutional investors but involve high dollar value transactions. The overall sector score for transactions, products and services is **medium-high**.

### *Delivery Channel Risks*

#### *Direct Long-Term Insurers*

266. Delivery Channels within the sector predominately included the use of Intermediaries and face-to-face onboarding. Online platform use, often insurers' websites or web-based portals, are minimally used to onboard customers. Half of the Long-term direct insurers utilized Intermediaries with no direct face-to-face business relationships or transactions with customers to onboard customers. Face-to-Face onboarding accounted for the remainder of the subsector's onboarding with a small percentage of the subsector utilizing online platforms, which is deemed a higher risk for ML/TF inherent risks. A **medium-low** risk rating for Delivery Channel risks has been assigned to the subsector.

267. Less than 50% of the long term direct international insurers utilized Intermediaries with no direct face-to-face business relationships or transactions with its customers to onboard its customers. A small percentage of long-term direct insurers utilize unlicensed and/or unregulated intermediaries or introducers to sell their insurance products. Online platforms do not present as a means of onboarding customers within the subsector. A medium-low risk rating has been assigned to this subsector.

268. As a result, the delivery channels risk of all direct long-term insurers domiciled in the Cayman Islands has been assessed as **medium-low**.

#### *Intermediaries*

269. Intermediaries facilitate customer onboarding for the long-term direct insurers predominantly on a face-to-face basis. The use of online platforms does not present as a means of onboarding customers within the subsector. This subsector is assessed as **low** risk.

#### *Insurance Managers*

270. Insurance Managers utilize Intermediaries, often within their ownership structure to onboard their clients. Due to the international landscape, face-to-face onboarding opportunities by Insurance Managers have decreased. A **medium-low** risk rating has been assigned to this subsector.

#### *ILS*

271. ILS business is facilitated through financial institutions including Investment Managers, Private Equity Funds and Banks with minimal face-to-face onboarding. The

use of online platforms does not present as a means of onboarding customers within the subsector. A **low**-risk rating has been assigned to this subsector.

#### *Summary for Risk Category – Delivery Channels*

272. The Delivery Channels are differentiated within the long-term insurers within the sector. Face-to-face and Intermediary onboarding are prevalent in the long-term direct insurer subsector. In contrast, non-face-to-face onboarding, including intermediaries and online platforms are utilized in the long-term international insurer subsector. Intermediaries facilitate mostly face-to-face customer onboarding. Insurance Managers rely on affiliated entities or intermediaries to onboard their customers. ILS business is facilitated through financial institutions with minimal face-to-face onboarding. The overall sector score for Delivery Channels is **medium-low**.

#### *Overall Conclusion*

273. Following the ML/TF inherent risk analysis of the four sub-sectors, an overall long term direct insurer risk rating of medium-low, medium-low rating for Intermediaries, medium-high rating for Insurance Managers and medium-low rating for ILS reinsurers based on the risk factors outlined. The consolidated overall risk rating for the sector was determined to be **medium-low**.

#### *II.2.f. Trust and Company Service Providers*

274. The TCSP sector makes up a material part of the Cayman Islands financial services industry. TCSPs provide services such as facilitating the formation and administration of companies and trusts. The companies and trusts for which TCSPs act serve a variety of functions, such as wealth management, succession planning, asset protection, asset financing, general business administration, and investment management. As a result, TCSPs can impact transactional flows through the financial system. As of the end of 2020, TCSPs in the Cayman Islands shared in the management of approximately US\$694 billion across various financial sectors. Factors such as a mixed local and international customer base, the complexity of some client structures, and the high value and international nature of financial transactions facilitated through their clients make TCSPs vulnerable to the risk of facilitating ML, TF and PF.

275. From 2015 to 2020, the number of licensed and registered TCSPs has remained stable. As of 31 December 2020, there were 545 TCSPs licensed by or registered with CIMA. These consisted of Trust Licensees (100), Nominee Trust Companies (45), Restricted Trust Licensees (60), Registered Private Trust Companies (145), Registered Controlled Subsidiaries (51), Companies Management Licensees (120), and Corporate Services Licensees (24).

276. TCSPs in the Cayman Islands are generally required to be licensed by or registered with the CIMA as per the Bank and Trust Companies Act (2021 Revision) (“BTCA”) and the Companies Management Act (2021 Revision) (“CMA”) depending on the services being provided. The types of TCSPs are outlined below.

### *Trustee Service Providers*

277. A company conducting trust business in the Islands is required to obtain one of the following licences based on the services it is providing: (i) Trust Licence - The licensee may conduct trust business within and outside of the Islands; (ii) Restricted Trust Licence - The licensee can only conduct trust business for persons or with respect to trusts listed in an undertaking accompanying the application for the licence; and (iii) Nominee (Trust) Licence - The licensee must be wholly-owned by another licensee acting only as of the nominee of its parent.

278. Controlled Subsidiaries and Private Trust Companies are the only types of trust companies that are exempt from the licensing requirements under the BTCA. They are still subject to regulatory oversight as they are required to be registered with CIMA and to file an annual declaration with the Authority<sup>20</sup> confirming their members and directors amongst other things. Controlled Subsidiaries' and Private Trust Companies' directors must also be fit and proper.

279. There is no reliable data available to assess how many persons who are not based in or established in the Cayman Islands are conducting trustee business outside of the Islands for trusts governed by Cayman Islands Law and what jurisdictions those individuals or companies are located in. However, where an attorney-at-law called to the Cayman Islands Bar is used to prepare or advise on a trust deed governed by Cayman Islands law they must comply with the local ML/TF/PF regime.

### *Corporate Service Providers*

280. Corporate Service providers conducting business in or from within the Islands are required to be licensed by CIMA under the CMA. CIMA may grant two types of licences: (i) a corporate services licence; and (ii) a companies management licence. A corporate services licence is required for a company providing services such as company formation and registered office services. A companies management licence is for those providing additional services such as providing company secretary, directors or officers to the company.

281. A summary of the assessment by risk category separately for TSPs and CSPs and the sector overall is found in the table below. The risk categories for TCSPs are evaluated further in the sections below.

Table 16: Summary of Assessment by Risk Category

<b>Risk Category</b>	<b>TSP</b>	<b>CSP</b>	<b>TCSPs Overall</b>
<b>Nature, scale and complexity</b>	Medium-High	Medium-High	Medium-High
<b>Customers</b>	Medium-High	Medium-Low	Medium-High
<b>Transactions, products and services</b>	High	Medium-High	High

20. Section 5, Banks and Trust Companies Act (2021 Revision), Private Trust Companies Regulations (2020 Revision)

<b>Delivery Channels</b>	Medium-High	Medium-Low	Medium-High
<b>TCSPs Overall</b>	Medium-High	Medium-High	Medium-High

*Risks Associated with Nature, Scale, and Complexity*

282. The TCSP sector provides services to clients based locally and in multiple jurisdictions who are conducting a variety of business activities. These activities can include supporting international financing transactions, serving as a commercial investment product (such as a mutual fund), or acting as a holding company or trust for wealth management purposes. Although the number of TCSPs who are conducting business within the Cayman Islands is relatively small, they are utilized in the shared management of assets of approximately US\$694 billion across multiple sectors.

*Trustee Service Providers*

283. TSPs vary greatly in size in terms of customer base. Trust licensees with an unrestricted licence are considered to carry a greater inherent risk due to the larger number of clients and the broader range of client types to whom they are licensed to provide services. As Restricted Trust licensees and registered Private Trust Companies typically provide trustee services to trusts which are settled by a single person, individuals in the same family, or to companies in the same group structure, their inherent risk is considered to be lower. Further, a Restricted Trust licensee can only conduct trust business for settlors and trusts approved by CIMA and typically these entities do not manage third-party assets. Nominee trust licensees and Controlled Subsidiaries would carry the same risk as their parent company that holds a trust licence as they are required only to act for their parent company or to conduct business connected to that of its parent in accordance with the parent’s trust licence.

284. Some TSPs hold a banking and trust licence or are affiliated with or are subsidiaries of a licensed Bank. Those TCSPs with a local Class A Banking licence and/or affiliated with a large international bank or trustee company typically have in place robust client onboarding and sophisticated ongoing monitoring systems which serve to decrease risk. Some TSPs with unrestricted trust licences are also authorized under their trust licence to conduct corporate services without the requirement for a separate licence under the CMA. Where a TSP is providing trustee services and corporate company management services as part of the same structure this is considered to be low risk due to the increased insight and ability to monitor transactions that are generally gained when a TCSP provides multiple services. Only 5% of owners of trust companies are from high-risk jurisdictions with the remaining 95% located in countries that are not high risk. Only 1 TSP had a subsidiary or branch in a country that was considered high risk.

*Company Corporate Services Providers*

285. CSPs range from those providing only corporate services to those also offering more specialized company management services. Only a small percentage of CSPs provide registered office only services as their core service. Where CSPs provide registered office only services, this is deemed to pose a higher inherent risk. This is on the basis that those CSPs offering other company management services that would



typically be seen in a service agreement ( such as directors services, secretarial services, maintenance of statutory records and registers, submission of returns to the Registrar, and beneficial ownership reporting) in addition to registered office services have greater control over and visibility into a client company and therefore first-hand knowledge of the working of a client company and its financial affairs. This increases the ability to monitor and risk-assess the client on an ongoing basis and to accurately determine the risks associated with any given structure. Two percent of owners of corporate service providers are based in high-risk countries and the remaining 98% are in countries that are not considered high risk. Only 4 CSPs had subsidiaries or branches in countries that were considered high risk.

#### *Trust and Corporate Service Provider*

286. A small number of licensed TCSPs are themselves affiliated with a local law firm or accounting firm. Where a firm is providing legal or accounting services to a client company in addition to the licensed TCSP providing corporate services this may serve to decrease risk due to the increased insight into client transactions, as this would generally result in increased visibility and knowledge concerning client transactions. However, the licensed TCSP must maintain all its books and records physically separate from the books and records of its affiliated law firm or accounting firm.

287. Shares of TCSPs themselves and other entities licensed or regulated by CIMA to which TCSPs provide services may be held in foreign or local trusts. Some trusts include the ability to add or remove beneficiaries. This presents a risk in that the economic benefit of the trust may change to higher-risk beneficiaries. Additionally, where trustees come from a jurisdiction in which they are not regulated it will be difficult to seek assistance from overseas regulators to determine that the trustee holding the interest in the Cayman Islands licensed or regulated entity is in good standing. This presents an increased inherent risk related to the structure of the TCSP.

288. Another emerging risk for TCSPs is those associated with the use of complex investment-related trust products offered by client companies. For example, ownership of insurance policies through a trust structure is common with insurers writing long-term insurance businesses and specializing in investment-oriented/wealth management products. Such products carry minimal life insurance benefit (death benefit) and most of the premiums paid are for investment purposes. These products are in most cases issued by licensed insurance companies conducting international business from the Cayman Islands. These structures carry high inherent exposure to ML, TF and PF risks due to factors such as the remote separation of the ultimate beneficiaries from the policy contracts, and the potential exposure to HNWI, PEPs, and high-risk countries. While these insurance products account for a small portion of the activities of the clients of TCSPs they do serve to highlight the diverse and international nature of the financial services business supported by TCSPs.

289. Where a TCSP has a physical presence in the Cayman Islands and its mind and management is located in the Islands the risk is deemed lower than those TCSPs with no physical presence or managers based in the Islands. This is because locally based persons lend themselves to more direct and effective supervision and are generally more

knowledgeable of and adept at applying the AMLRs. Additionally, where assets are being managed within a regulated framework in the Cayman Islands this generally reduces the inherent risk even if the assets are located outside the jurisdiction. Due to legacy arrangements, a small percentage of TCSPs have no physical presence on Island. In consideration of risk, where an applicant for a trust or corporate services licence is not deemed to have its mind and management in the Cayman Islands and CIMA is not satisfied that there will be sufficient controls in place to mitigate inherent risks to the proposed activity, the response to the application will not be favourable.

290. In considering the inherent risks relating to nature, scale and complexity of the TCSP sector both TSPs and CSPs are rated as medium-high given the size of the industries in terms of the value of assets under management, the nature of services provided, and the international (and sometimes complex) nature of the ownership and control of many TCSPs. The overall score for TCSPs in this category has been assessed at medium-high.

#### *Customer Risks*

291. TCSPs serve a total of approximately 142,290 customers, 85% of which were serviced by TSPs and the remaining 15% by the CSPs. TCSPs typically serve both customers who conduct business exclusively within the Cayman Islands and customers who act mainly or exclusively outside of the Islands. Many of the TCSPs business clientele includes sophisticated financial services, which would require licensing and regulation by CIMA and result in a reduction of the client risk. TCSPs, for example, provide registered office services to licensed mutual funds, registered mutual funds and securities-registered persons. TCSPs also provide services to other trusts or entities such as NPOs regulated by local regulatory authorities which are generally considered to be low risk<sup>21</sup>.

#### *Trustee Service Providers*

292. Approximately 1% of the overall TSP client base are PEPs and a negligible amount of those PEPs are from a high-risk jurisdiction. Just over one-third of the TSP customer base are HNWI. Approximately 6% of customers of TSPs are from a high-risk jurisdiction. In the TSP sector, just under half of the customers were natural persons with around two-thirds of them not being from the Cayman Islands. TSPs customers who are legal persons are predominantly from the Cayman Islands.<sup>22</sup>

#### *Corporate Services Providers*

293. CSPs are providing services for a negligible number of PEPs with only 2 PEPs coming from a high-risk jurisdiction. The number of CSP customers who are HNWI is also negligible. Approximately 8% of customers of CSPs come from a high-risk jurisdiction. In the CSP sector around one-third of customers are natural persons with those customers being mainly from outside of the Cayman Islands. The overwhelming majority of customers for CSPs that are legal persons are based in the Cayman Islands.

294. Both TSPs and CSPs have a low percentage of PEPs and persons from high-risk jurisdictions as clients. TSPs have a higher proportion of natural persons as customers

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21 Please see chapter V.1 in relation to NPO's in the Risk Assessment.

22 Please see chapter V.I, in relation to NPOs.

than CSPs. This is likely due to trustee services traditionally providing a sound method of personal wealth management and succession planning for natural persons. On the other hand, a more significant portion of CSPs' business is geared towards companies. CSPs have less sophisticated monitoring infrastructure due to the smaller size of operation.

295. The risk rating for TSPs is medium-high due to the large number of clients being HNWI and natural persons who are not based in the Cayman Islands. The CSP sector was given a risk rating of medium-low due to its smaller customer base and reduced exposure to PEPs and HNWI when compared to TSPs. Given the international customer base of both sectors and because TSPs make up most of the customer base the overall risk rating for the customer's risk category for the TCSPs sector is **medium-high**.

#### *Transactions and Products/Service Risks*

296. The primary services provided by the TCSP sector in the Cayman Islands include trustee, director, secretarial and registered office services. TCSPs may also provide nominee shareholder services. A developing unregulated area of business for TCSPs is acting as money laundering reporting officers ("MLRO") and deputy money laundering reporting officers ("DMLRO") for client companies.

297. Trust Services - The provision of trust services by TCSPs will vary from low to high risk, based on factors such as the source of assets for and intended purpose of the trust. Each trust would be assessed by the TCSP accordingly. Trusts such as those created by parents for the benefit of their children or those created for vulnerable individuals are considered to have lower inherent risks as they are not generally complex in nature and the source of funds and beneficiaries for whom the funds will be applied is clear. Trusts used for financing or investment purposes such as unit trusts or asset financing transactions are generally considered a higher risk as their source of funds are typically more complex and diverse (e.g., due to multiple investors) and present increased capacity to move funds.

298. Director/Secretary Services - The majority of TCSPs offer registered office services and management services although approximately 32% offer only registered office services. Where a TCSP provides both registered office services and other additional services such as directorships and secretarial services they necessarily have a better understanding of their client's business and can more easily identify the source of funds as well as the ultimate beneficial owners in conducting their activities.

299. Nominees - Nominee shareholders are permitted under Cayman Islands law and may include natural persons, exempted companies, or non-resident persons. Where a person acts as a nominee for profit or gain (even for a nominal sum), they are required to be licensed under the CMA and are subject to the Cayman Islands' AML/CFT/CPF framework. The primary services provided by the nominee (trust) licence holders are share trustee, director or secretarial services to clients of their parent company.

300. The TCSP sector services approximately US\$694 billion in asset value for its client base. US\$668 billion is serviced by TSPs and the remaining US\$26 billion by CSPs. US\$506 billion is not located in the Cayman Islands, which confirms the global connectivity of TCSPs. Cash transactions are virtually non-existent across the sector. Most payments are

made via international wires or drafts, and these are processed via a regulated financial intermediary. This reduces the risk inherent in this sector.

301. The high value of assets and cross border fund transfers pose a significant inherent risk factor for TSPs in particular, resulting in a high-risk rating for this category. CSPs were given a rating of medium-high given the smaller client base and lower value of assets under administration in the sector. Where registered office service is the only service offered to clients, this may pose a greater risk due to the less comprehensive understanding of clients' business. Given the potential for risks based on the investment inflows and outflows of funds, the high value of assets under management, and the innate risk of providing services such as trustee, directorship and nominee services which lend themselves to asset management and distribution, the overall rating for TCSPs regarding product/service risk is **high**.

#### *Delivery Channel Risks*

302. Approximately 23% of customers for TSPs and 38% of CSP customers were onboarded face-to-face. There is limited use of online platforms for onboarding which mitigates the risk posed by non-face-to-face onboarding. Ongoing communication with the client through established referral contacts (e.g., lawyers, accountants and other advisors of the client) are considered common by TCSPs. E-mail, telephone and online communication through Zoom, Skype, etc. have become more commonly used than in-person meetings.

303. Group introduction is common, particularly in the TSP sector and the procurement of services is often through foreign and local introducers. Most introducer relationships are with local lawyers. The incidence of using eligible introducers outside of a TCSP group was found to be low and only 2 CSPs were found to have third party introducer relationships with entities in high-risk jurisdictions.

304. Due to the number of clients not based on Island, the ability to meet clients directly is impacted. The current pandemic has presented further challenges with meeting clients face to face. However, communication via e-mail, telephone and video conferencing continue. Most client referrals come through introducers in the same group as a TCSP, or from introducers who are not in high-risk jurisdictions. Overall TSPs were assessed to be at medium-high risk for delivery channels risks and CSPs were considered to be at medium-low risk. The lower rating for the CSPs sector is due mainly to the higher percentage of face-to-face meetings for client onboarding and the smaller size of the sector when compared to TSPs. Given the larger size of the TSPs sector compared to the CSPs sector the overall rating for TCSPs in this category is **medium-high**.

#### **Overall Conclusion**

305. TSPs were found to vary from low to high risk in the category of transactions, products and services offered. However, given that TSPs were rated as medium-high in all other risk categories the overall rating for TSPs is medium-high. While CSPs were found to carry a lower risk than TSPs in terms of their customer base (assessed as medium-low), transactions products and services (assessed as medium-high), and delivery channels risks (assessed as medium-low) overall the CSPs sector is also rated as

a medium-high. These findings resulted in an overall risk rating of the TCSPs sector of medium-high. The rating was determined due to the significance of the TCSP sector to the financial services industry in the Cayman Islands including the high value of assets managed, the large percentage of international clientele and the cross-jurisdictional reach of the industry.

#### II.2.g. Real Estate Agents, Brokers, and Developers

306. The real estate sector is quite active in the Cayman Islands both in the commercial and residential markets, for primary residence and vacation purposes, and long-term and short-term rentals. The Cayman Islands benefits from a significant expatriate workforce and saw an increase in long-term and short-term rentals for each year from 2017 to 2020. The consumer price index has seen a continuous increase mainly due to the sharp increase in rents each year, with the exception being 2020. Significant increase in the tourism market over the years contributes to the demand for short term rentals.

307. The Cayman Islands' economy has remained stable with the COVID-19 measures in place and the real estate market has continued to benefit from this stability. Figure 8 illustrates the activity in the market from 2017 to 2020.

308. Real estate agents and property developers are subject to supervision for AML/CFT, whereby the following are exempt from supervision:

- a) a licensed real estate agent whose nature of business is property management, real estate rental or lease, or property holdings.
- b) a property developer who (i.) develops property only and conducts all sales through a registered agent or broker that is under the supervision of the DCI and meets all the requirements of the AMLRs; or (ii.) is holding the property only for future development or for conducting rental or lease of a property.

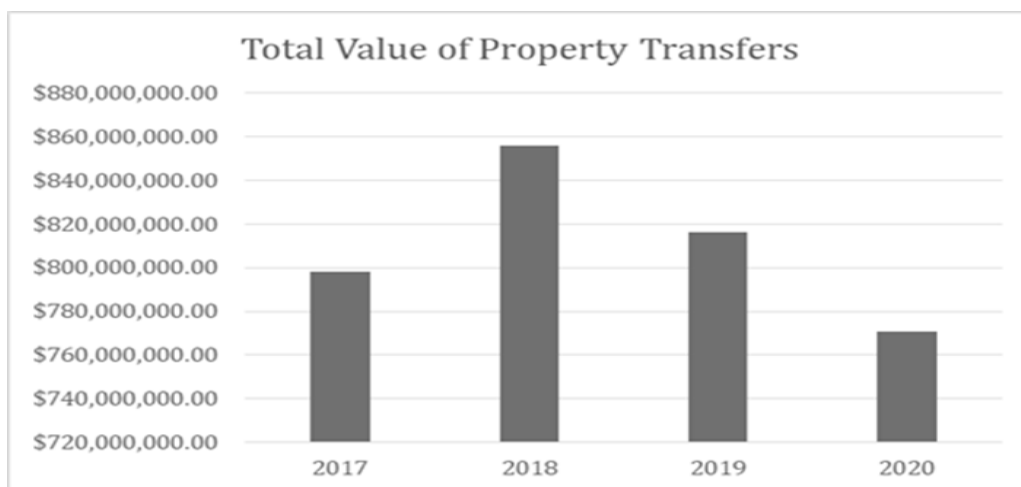


Figure 8: Market Activity 2017-2020

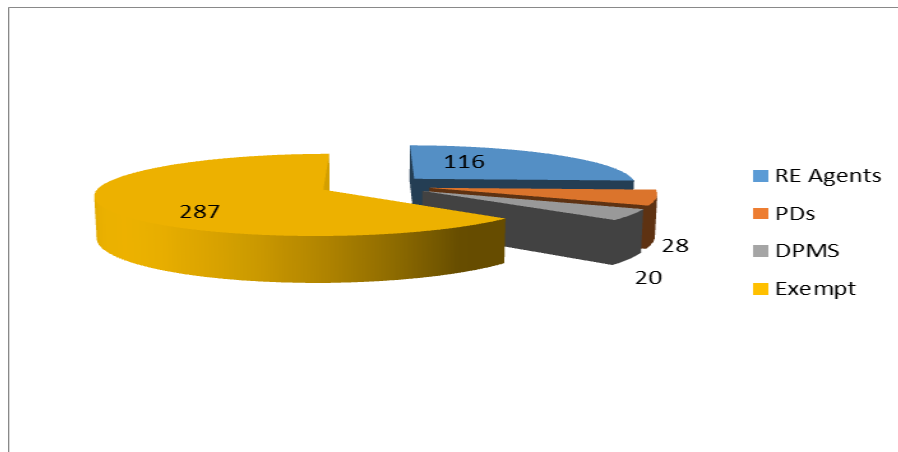
Table 17: Summary of Assessment by Risk Category

Risk Category	Real Estate Agents	Property Developers
Nature, Size, Complexity	High	High
Customers	Medium-High	Medium-High
Transactions, Products and Services	Medium-High	Medium-High
Delivery Channels	Medium-Low	Medium-Low

*Nature, Scale and Complexity*

309. At the time of the drafting of the NRA 2021, 431 businesses held licenses to operate in the real estate sector, of which there were 116 real estate agents/brokers and 28 property developers coming within the scope of AML/CFT supervision and considered to be conducting RFB. The remaining 307 businesses are considered exempt or captured within another regulated category overseen by DCI, broken down as 287 being exempt from the process, or operating as DPMS and captured within scope. These 431 licensees consist of companies and sole traders, however, only 164 are classified as DNFBPs. At present, there are 36 brokers (companies) holding membership with the Cayman Islands Real Estate Brokers Association (CIREBA), which is the local real estate association.

Figure 9: DCI’s 2021 Population of Licensees



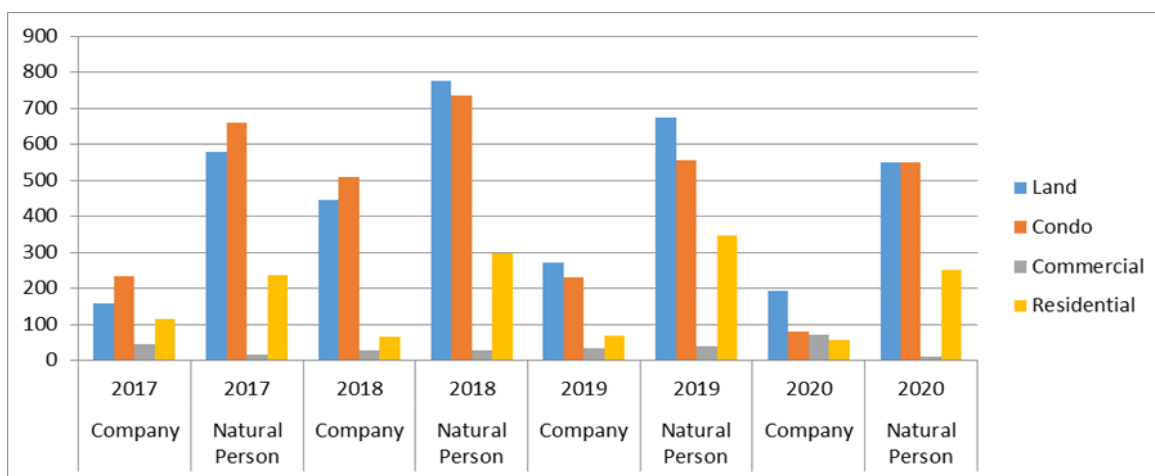
310. Property development in the Cayman Islands is fairly simple, with few restrictions on who can own and develop real estate. In many cases, the main restrictions are from the Planning Department as it relates to size and type of development within specific locations around the islands based on zoning restrictions. Another restriction is geared towards international companies developing in the islands. These restrictions are applied by the Trade and Business Licensing Board requiring companies that are not majority Caymanian owned to apply for a Local Companies Control License. This

application requires full due diligence to be conducted and, if successful, such licenses must sell all developed property through a local real estate agent or broker licensed and registered with the DCI as a DNFBP. Overall, given the various types of activities in the sector and the volume of transactions, the risk relating to nature, scale and complexity is **high**.

*Customer Risk*

311. The Cayman Islands real estate market is highly desirable for both domestic and international investors, and there are currently no restrictions on foreign ownership for personal use. The appeal of Cayman Islands real estate to High-Net-Worth and Ultra High-Net-Worth international purchasers and investors for development is particularly noteworthy, given the risk that the local market may be abused by foreign criminal elements. The Cayman Islands real estate sector is considered vulnerable to ML as the exposure to international influences is significant. Figure 10 below reflects the ownership of real estate from 2017 to 2020.

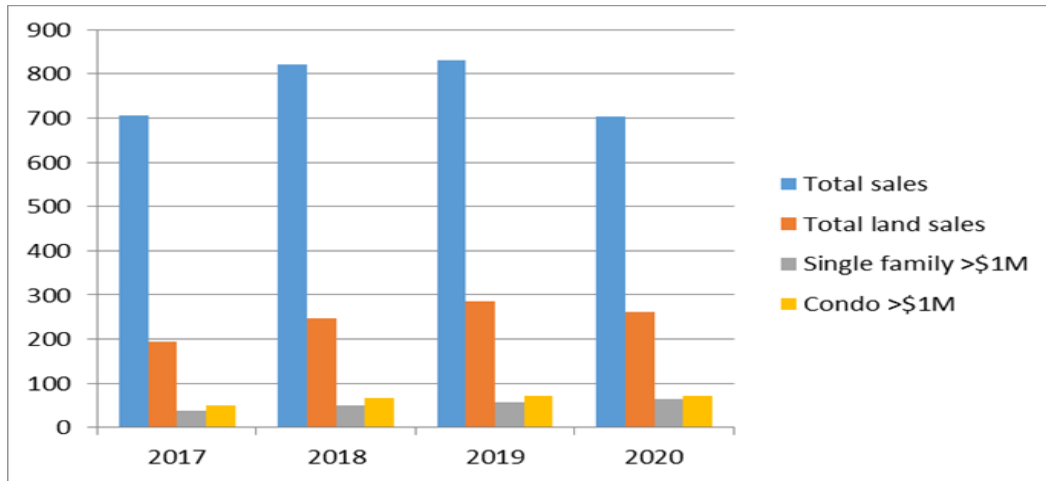
Figure 10: Ownership of Real Estate from 2017 to 2020



312. It is not uncommon for a nominee to be used and the beneficial owner to be added to the sale and purchase agreement at the last minute. For example, a family may be deciding whether to place the purchase in the name of a trust. This presents challenges in identifying the true beneficial owner or effective controller of the customer.

313. Also competing for inventory is the local workforce which has seen an increase in expatriate workers over the years, placing demand on the rental market. Figure 11 below indicates the numbers from 2017 to 2019 of work permit holders and persons obtaining permanent residency with the right to work in the Cayman Islands. The demand is now also increased by the Global Citizenship offered by the islands during the pandemic.

Figure 11: Workforce Composition



314. Given the openness of the real estate market to international clients and the number of products catering to UHNWI and HWNI, the customer risk is deemed **medium-high**.

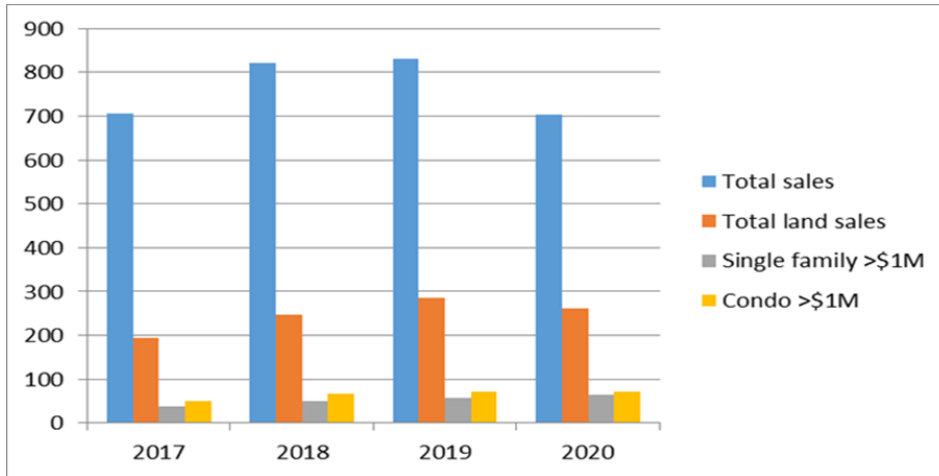
*Product/Service Risk*

315. The real estate sector within the Cayman Islands is very diverse. As of July 2021, the most expensive parcel of land (538 acres) for sale in Grand Cayman is priced at \$71,750,000 (US\$87,500,000), while the least expensive parcel of land (0.2566 acres) is priced at \$23,850 (US\$29,085.36). Similarly, there is a large range between the lowest priced residential property currently on sale, priced at \$87,000 (US\$106,097.56) and the most expensive at \$32,759,000 (US\$ 39,950,000).

316. CIREBA members' real estate sales were US\$463.7 million for 2017, US\$576.2M for 2018, US\$639.3 million for 2019, and during 2020 sales totalled US\$694 million. Figure 12 below indicates the number of sales from 2017 to 2020, broken down by land, single-family homes over US\$1 million, and condominiums over US\$1 million. These figures account for 58%, 67%, 65%, and 76% of all sales in 2017, 2018, 2019 and 2020 respectively. The outstanding value of sales is accounted for by the sales of commercial properties, single-family homes, and condominiums under US\$1million.



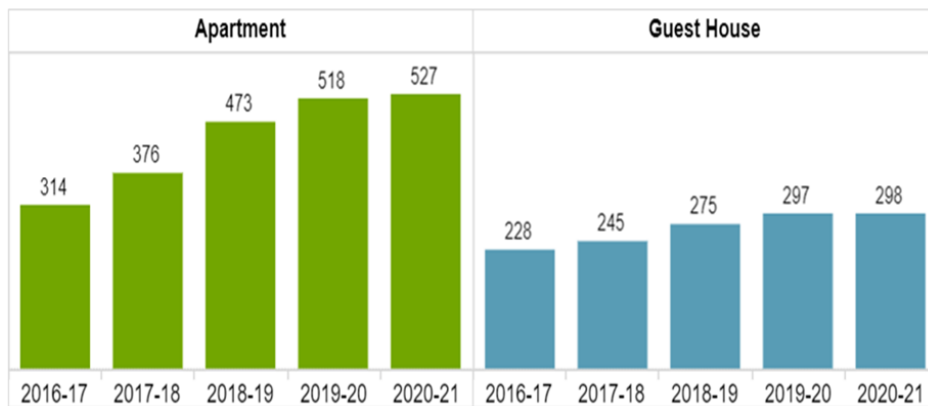
Figure 12: Values of Sales



317. The market sector experiencing the highest sales has been the luxury/resort condominium sector. According to the CIREBA data, the segment consisting of condominiums valued at over US\$1 million saw 50 sales for 2017, 68 sales for 2018, 72 sales for 2019, and 71 sales in 2020. Additionally, there have been significant sales of single-family homes valued at over US\$1 million with total sales of 50 in 2017, 49 in 2018, 58 in 2019 and 64 in 2020.

318. Demand by a robust tourism market creates a demand for short term rental on Seven Mile Beach and Seven Mile Beach corridor. Many high-end condos/apartments are registered as short-term rentals for tourism as shown in Figure 13 below and supported the assertion of investment for this purpose.

Figure 13: Condos/Apartments registered as Short-Term Rentals for Tourism 2017 – 2021



319. The business of property development is at an all-time high as the demand for Cayman Islands real estate is outpacing the current levels of supply. There has been a notable increase in market activity within recent months, with several large-scale residential projects completed. Properties are developed and sold for primary residences

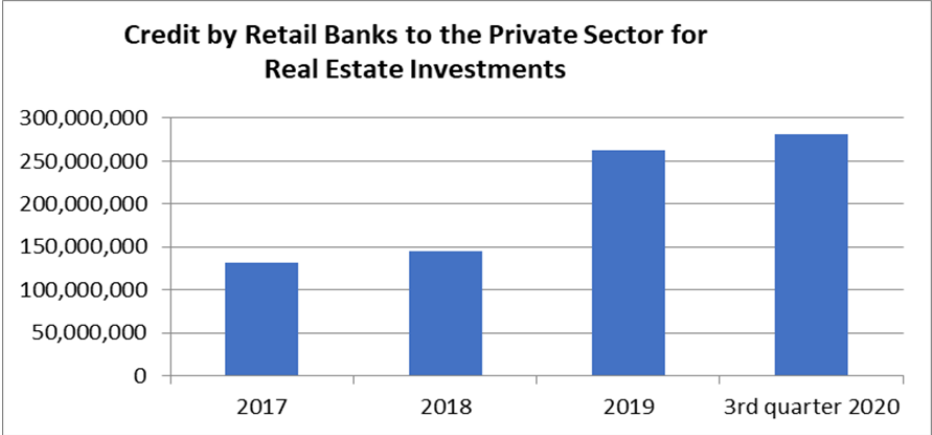
and vacation homes or used as short and long-term rentals. This property development boom may have been aided by the Cayman Islands Government's COVID-19 relief measures that included permitting individuals to access up to 25% of their retirement pension funds. These monies are believed to be driving significant activities in the real estate and property development sectors, with numerous properties having been sold and/or under development. Figure 14 below indicates the projects completed from 2018 to 2020.

Figure 14: Projects completed from 2018 to 2020



320. While it is clear that Cayman Islands licensed retail/commercial banks (i.e., “Category A Banks”) play a significant role in the financing of developments and the purchases of real estate as shown in Figure 15, it is significantly more difficult to determine the extent of the role that Cayman Islands licensed “Category B” private banks play in the real estate and property development market. Local banks act as a further line of defence against any domestic or foreign bad actors, as they act as gatekeepers in the AML/CFT mandate of the Cayman Islands.

Figure 15: Credits provided by Banks for Real Estate Investment



321. The risks associated with products, transactions and services is **medium-high** for the sector.

#### *Delivery Channel Risk*

322. Real estate agents and property developers are more customer-facing than many other sectors, and as a result, have a good understanding of their customers, investors, and associated transactions. For instance, they may have insight as to whether a customer is suspiciously under/overvaluing properties (which may be a red flag) or for how long or short a period a customer is holding onto a property (which may indicate property “flipping” to disguise the origin of the funds). They also may have an appreciation of their customers’ property portfolio and the use of different lawyers or financial institutions (particularly when representing international investors), which would not be visible by any other reporting entity.

323. The Cayman Islands domiciled real estate professionals have a long-established practise of conducting business through face-to-face contact with their customers, or investors in the case of property developers. This practice offers a tangible business relationship and an opportunity to interact with customers. The real estate industry offers and conducts some aspects of its services through non-face-to-face channels, however financial transactions are not processed online, over the phone, or by using unregulated intermediaries. Rather, the Cayman Islands model makes extensive use of conveyancing through regulated offices of attorneys-at-law, with transactions going through licensed and regulated banks, including the escrow accounts used by local real estate agents and brokers.

324. The risk for the sector is **medium-high**

#### *Conclusion*

325. The real estate sector is regarded as being highly vulnerable to ML/TF abuse, both domestically and internationally. Access to the real estate sector in the islands is easy due to the ease of ownership, with little restrictions on ownership by international investors. The involvement of real estate agents and brokers provide money launderers with the impression of respectability and normality, especially in large transactions which is a further step in the ML/TF chain that frustrates detection and investigations. Real estate agents and brokers provide a more limited range of products and services than some gatekeepers. However, real estate is a very high-value commodity that is attractive for both ML and the investment of criminal proceeds. Real estate agents, brokers and developers offer their products and services via both face-to-face and non-face-to-face channels. Many customers in the Cayman Islands real estate sector are generally low risk due to the large number of domestic transactions. However, there is also an equally large number of transactions involving overseas buyers, which may involve PEPs, or companies wanting to invest in the real estate market in the Cayman Islands as owners of property or investors to develop.

### II.2.h. Dealers in Precious Metals and Stones

326. There are 20 registered retailers of precious metals and stones, ranging from sole proprietorships to large companies. Precious metals in retail stores are in the form of pre-manufactured jewellery imported to the islands. The majority of beneficial owners of the larger companies are residents of the Cayman Islands with a small percentage of the shareholders recorded from high-risk jurisdictions. There is a low percentage of beneficial owners or shareholders reported as being PEPs. Several of the larger retailers have multiple locations across the Caribbean and offer the widest range of precious gemstones. The customer base of the sector is made up of a mixture of domestic and international customers. These products attract a predominantly international customer base that are cruise ship passengers visiting the islands short term and are one-off transactions. However, there is a percentage of domestic repeat customers. In addition, a small percentage of these customers use cash as a method of payment.

327. From 2017 to 2020, there were approximately 350 shipments of incoming precious metals including gold bars and coins. Fewer imports were recorded for silver bars, coins, and other types of precious metals. All precious metals are imported into the Cayman Islands and are managed mainly by one regulated entity. The total value of imports over this period was more than US\$19 million. These transactions are not primarily cash-based, and active oversight takes place. In addition, imports are controlled with random checks carried out by CBC.

Table 18: Summary Risk Rating DPMS

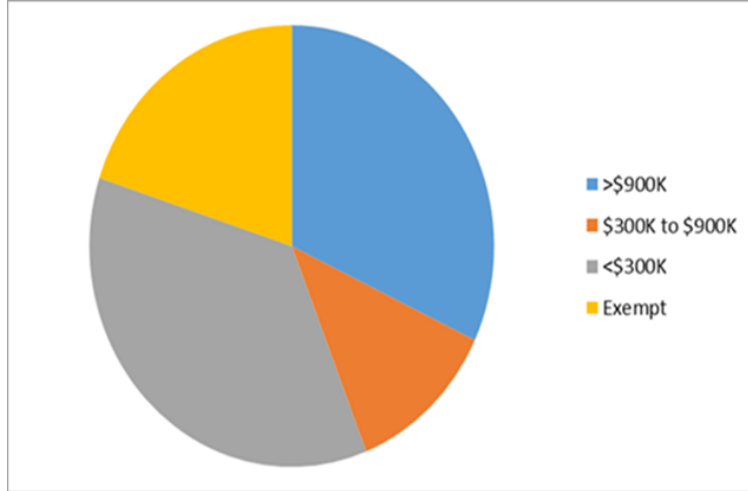
Risk Category	DPMS
Nature, Size, Complexity	Medium-Low
Customers	Medium -Low
Transactions, Products and Services	High
Delivery Channels	Medium-High
Overall	Medium- Low

#### *Nature, Scale and Complexity of Business*

328. As of July 2021, there were twenty-five (25) entities licensed in the category of retailer in jewellery. Of that 25, twenty (20) are licensees dealing in precious metals and precious stones and thereby are in scope for regulatory oversight. The 20 DNFBPs classified as conducting RFB comprise twelve (12) companies and eight (8) sole traders. The remaining five (5) licensed retailers are exempt from regulatory oversight due to the nature of their business. To be exempt, an entity must be confirmed to be dealing in only non-precious metals (i.e., stainless steel) and non-precious stones, including shells.

Based on annual turnover, Figure 16 below indicates the size and activity of the entities currently under supervision.

Figure 16: Gross Revenue from Activities Reported on the Annual DPMS Questionnaire



329. The overall rating for nature, size and complexity of business is **medium-low**.

*Customer Risks*

330. In the Cayman Islands, there are three (3) distinct and separate target markets of customers: the resident/domestic customer base, the stay-over visitor customer base, and the cruise ship passenger customer base.

331. The domestic customer base is the smallest in terms of numbers, comprising every segment, from persons who earn minimum wage to HNWIs and UHNWIs earning millions of dollars annually.

332. The stay-over visitor customer base is the second largest in terms of numbers and is comprised of persons with medium to high net worth and UHNWIs, with a vast majority of them domiciled in the United States, Canada or Western Europe.

333. The cruise ship passenger customer base is by far the largest in terms of numbers as indicated in Figure 17 and is comprised of low to medium HNWIs, the vast majority of whom are from the United States, Europe and Canada, with far smaller numbers from other jurisdictions, including persons from South America. Since 2020, there has been a decline in business due to the COVID-19 restrictions imposed on stay-over travel as well as the cruise industry. It is anticipated that once the restrictions are removed, the customer base for this sector and associated risk will gradually increase.

334. In terms of overall spending per person, the leading customer base is the stay-over visitor customer, followed relatively closely by the domestic customer, and finally with far less spending power per person, the cruise ship passenger customer.

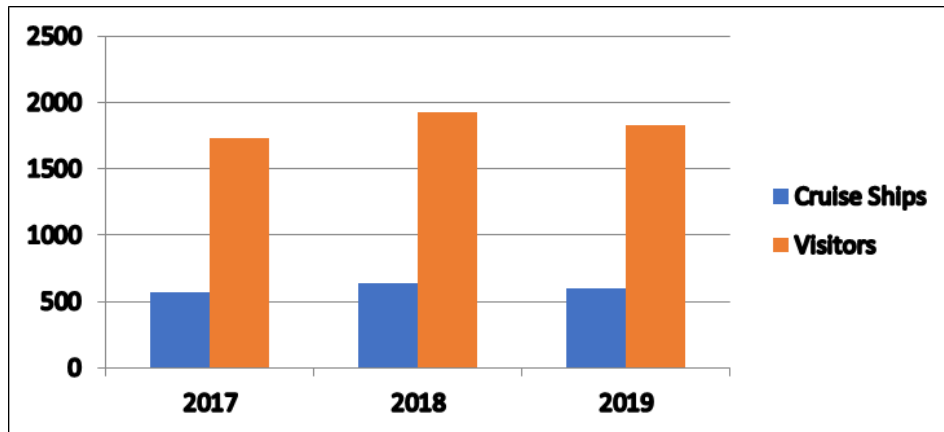


Figure 17: Comparison of Spending between Cruise Ship and Stay-Over Visitors

335. The two customer bases spending the most per person are often regular and repeat customers with local DPMS, in some cases having relationships spanning over many years. The transient and lower-budget nature of the average cruise ship passenger customer does not lend itself to forming the relationships that aid in mitigating ML through DPMS business, and so Cayman Islands DPMS have become very adept at spotting bad actors. An example of this can be found in the 2013 criminal case against three (3) Malaysian nationals arrested on Grand Cayman after using more than 50 cloned credit cards to purchase jewellery from two licensed jewellery stores.

336. The overall customer risk is rated **medium-low**.

#### *Products and Services*

337. Precious metals and stones are highly versatile for criminals. Once purchased they can be recapitalized through uncontrolled trading markets, they are easy to transport (both domestically and internationally), are easy to disguise and conceal, and maintain their value for long periods. In addition, these commodities are a practical option for ML/TF because there is no paper trail, transactions can be completed quickly, they can be facilitated with cash in some instances, and items can be easily hidden for safekeeping and/or transportation. ML/TF through the sale and purchase of precious metals and stones enables the criminal to have direct control over the entire process.

338. As sold in the Cayman Islands by DPMS, precious metals predominantly take the form of premanufactured jewellery imported into the islands. The local sale of precious stones may be either part of imported premanufactured jewellery or as un-set loose stones. Generally speaking, precious stones sold in the Cayman Islands will be accompanied by a Gemological Institute of America (“GIA”) certificate, confirming the size, colour, clarity and source of the stones. GIA certificates are used to prove the authenticity of the stones and to evidence that they have not been sourced from countries deemed to be in armed conflict or active war zones.

339. The trade in precious metals and stones in the Cayman Islands is predominantly done through face-to-face transactions between sellers and buyers and includes a legally mandated cash reporting threshold of \$10,000 (US\$12,195.12). Moreover, many “Luxury Brands” maintain strict controls over their distribution channels to ensure that the exclusivity of their brands is not diluted, and to develop sophisticated customer relationships, facilitating future sales and providing superior customer support. This further lowers ML/TF risks by preventing Cayman Islands DPMS from selling such brands online.

340. The rating for transactions, products and services risk is **high**.

*Delivery Channel Risks*

341. The predominant method of delivery in the Cayman Islands is through face-to-face sales directly with customers, offering a form of a tangible business relationship and the opportunity to interact with the customer. This is advantageous, especially when dealing with the transient nature of customers that include cruise ship passengers who may only ever be in the Cayman Islands for a few hours.

342. While most sales, by the number of sales, may be made to transient cruise ship passengers, these sales are typically low dollar amounts and pose minimal ML risks. The vast majority of high dollar sales are made to regular customers, comprised of either people residing in the Cayman Islands or frequent stay-over visitors, with established reputations as legitimate high-end customers.

343. The delivery channel risk is **medium-high**.

*Conclusion*

344. Dealing in precious metals and stones will always represent higher ML/TF risks, regardless of where the DPMS is domiciled, by the sheer nature of the industry and the appeal of the high value, transportable, and transferable goods to criminal and terrorist organizations.

345. Cayman Islands-based DPMS have mitigated the inherent country risks, to the degree possible, by sourcing their inventories from reputable international entities with accompanying GIA certificates and selling face-to-face to customers primarily from highly regulated jurisdictions and lower risk countries that include the United States, Canada and Western Europe, who have robust AML/CFT regimes almost comparable to that of the Cayman Islands.

346. The overall risk is **medium-low**.

*II.2.i. Lawyers*

Table 19: Summary of Risk Rating Lawyers

Sub-Category	Risk Score
International Supervised Firms	Medium-High

Domestic Supervised Firms	Medium-High
<b>Overall Sector Score</b>	<b>Medium-High</b>

347. The Cayman Islands remains a stable offshore legal market and has seen continued growth with increasing numbers of overseas lawyers being admitted, more Caymanians entering the legal profession, established international law firms expanding, and new law firms being formed. Cayman Islands law is a key component of the jurisdiction’s financial services product, is a major export, and therefore critical to the economy. The legal sector expanded its share of Cayman’s economic product from 4.6% in 2006 to 6.4% in 2019, as per the Economic and Statistics Office<sup>23</sup>.

348. As of 31 December 2020, there were 58 firms of attorneys-at-law (including sole practitioners) registered with CARA as conducting or intending to conduct RFB (hereafter referred to as “Supervised Firms”).

349. A distinction has been drawn between Supervised Firms that are international/multi-jurisdictional or internationally affiliated, meaning a law firm physically located in the Cayman Islands and that also has an established office or a presence outside of the Cayman Islands (“International Supervised Firms”), and those firms that are purely domestic in nature (“Domestic Supervised Firms”).

350. Although there are 58 Supervised Firms generating revenue derived from RFB activities, a relatively small number of these firms control much of the international legal activity as they are multi-jurisdictional and have great reach in bringing business to the Islands. Major leading international law firms are therefore materially high volume and have significant revenue in the context of the broader group of DNFBPs in the Cayman Islands. In addition, there are several licensed TCSPs in the Islands affiliated with Supervised Firms.

351. Only a Judge of the Cayman Islands Grand Court can admit barristers, solicitors, and others to practice as an attorney-at-law in the Cayman Islands. Lawyers who are not Caymanian or do not hold Caymanian status may be eligible for admission to practice law if they have qualified in the United Kingdom, Jamaica or other Commonwealth jurisdictions recognized as being equivalents, and meet other minimum criteria.

352. CILPA is one of two professional representative bodies for attorneys-at-law in the Cayman Islands. CILPA membership is open to all admitted attorneys-at-law. Caymanian attorneys-at-law may also choose to join the Association of Legal Professionals and Advocates (“ALPA”). Neither of the two associations regulates the profession per se. ALPA currently has no regulatory role. CILPA has delegated its AML supervisory role to CARA as a sub-committee of CILPA.

353. In accordance with the AMLRs, firms of attorneys-at-law (including sole practitioners) conducting RFB are required to register with and be supervised by CARA. However, it is important to note that, under the POCA, the Terrorism Act (2018 Revision), and the Proliferation of Financing (Prohibition) Act (2017 Revision), all Cayman Islands law firms, whether supervised by CARA or not, have obligations to report on suspicion or

<sup>23</sup> <https://www.caymancompass.com/2021/01/08/economic-share-of-financial-services-continues-to-shrink/>



knowledge of ML, TF, and PF, and must therefore have adequate measures in place to detect and deter financial crime.

354. Some attorneys-at-law in the Cayman Islands may also act as Notaries. The scope of activities conducted by a Notary as indicated by section 9 and Schedule 5 of the Notaries Public Act is narrow and does not include activities that fall within the definition of RFB. Notaries are, therefore, considered to be **low risk**.

355. The inherent vulnerabilities of the legal profession must be seen in the context of the jurisdictional vulnerabilities facing the Cayman Islands. These have been identified as being the risk that the Cayman Islands' financial system could be used as a conduit for the proceeds of financial crime generally, and fraud, bribery and corruption, tax evasion, and drug trafficking specifically. These threats are usually predicated upon the commission of crimes abroad and the decision to funnel those proceeds through structures, transactions, and accounts in the Cayman Islands. The most significant danger for the legal community is the direct participation of firms in that movement of funds through their involvement in such transactions and or the usage of their accounts.

356. The inherent risk assessment carried out resulted in the allocation of a **medium-high risk** rating overall for International and Domestic Supervised Firms, as shown in the table below. It is acknowledged the more complex a firm's practise model, as well as the greater variety and volume of RFB services offered, the higher the inherent risk is. International Supervised Firms are therefore materially significant when compared to Domestic Supervised Firms in this sense. However, Domestic Supervised Firms whilst having a lower transactional volume also engage in cross border activity, act for higher risk clients and are more likely to be involved in conveyancing which is a higher risk service.

Table 20: Summary of Inherent Risk Assessment

Risk Category	International Supervised Firms	Domestic Supervised Firms	Overall
Nature, size, and complexity	Medium-High	Medium-Low	Medium-High
Customers	Medium-High	Medium-High	Medium-High
Transactions, products, and services	Medium-High	Medium-High	Medium-High
Delivery Channels	Medium-Low	Medium-Low	Medium-Low
<b>Overall</b>	<b>Medium-High</b>	<b>Medium-High</b>	<b>Medium-High</b>

*Risks Associated with Nature, Scale and Complexity*

357. The legal sector as a whole in the Cayman Islands is trusted, well developed, sophisticated, and constantly evolving to meet the demands of globalized markets. The

volume and revenue generated are significant when compared to other DNFPBs and the legal profession's ability to adapt and evolve also exposes it to new and emerging risks. The client base is predominantly 'international' (in the sense that most Cayman funds are sponsored from onshore financial centres) and UHNWIs and HNWI's are more likely to seek out the appropriate expertise from offshore lawyers, for example for advice on their business ventures and wealth management.

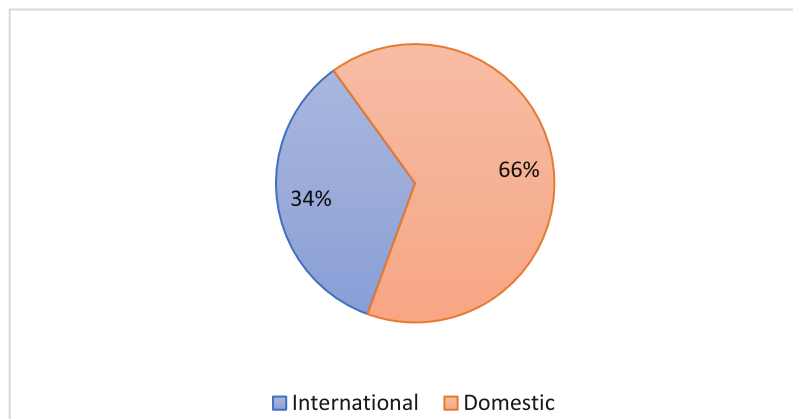


Figure 18: Supervised Population

358. All Supervised Firms have a physical presence in the Cayman Islands. The International Supervised Firms, despite being fewer in number compared to Domestic Supervised Firms (as shown in the chart above), dominate the sector in terms of total RFB client matters carried out. Approximately, 1,400 individuals are employed full-time in Supervised Firms, of which over half are fee earners.

#### *International Supervised Firms*

359. The legal profession in the Cayman Islands is dominated by three of the International Supervised Firms that employ just under half of the total employees reported. The majority of International Supervised Firms are companies, partnerships, or limited liability partnerships, only 5% are sole practitioners.

360. In addition to their Cayman Islands office, all International Supervised Firms maintain a presence or have an established office outside of the Cayman Islands. Some global firms have offices in other offshore jurisdictions, whilst others include the major onshore financial centres such as London, New York, and Hong Kong.

361. It is estimated that in 12 months from 1 January to 31 December 2020 International Supervised Firms undertook approximately 29,000 client matters (falling within the scope of RFB) on behalf of 25,000 domestic clients<sup>24</sup>. Relevant legal services

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<sup>24</sup> Note firms often act as 'offshore' counsel to an entity registered in the Cayman Islands, e.g., they consider themselves 'counsel to the (Cayman) fund' even though they may be originally instructed by (and effectively paid by) a sponsor/promotor of the fund based overseas. Such cases count as 'domestic' in the figures because the fund for example is registered in the Cayman Islands.

were also provided to international clients<sup>25</sup> (approximately 7,700) in just over 14,000 client matters.

#### *Domestic Supervised Firms*

362. Most Domestic Supervised Firms are either sole practitioners or a firm with five employees or less. Only two Domestic Supervised Firms reported having more than 20 employees. Data shows 46% of Domestic Supervised Firms are sole practitioners, 29% corporate entities and 25% general partnerships.

363. It is estimated that in 12 months from 1 January to 31 December 2020 Domestic Supervised Firms undertook approximately 1,800 client matters (falling within the scope of RFB) for just over 1,600 domestic clients<sup>26</sup>. In contrast, fewer RFB matters, approximately 500 were carried out for a similar number of international clients<sup>27</sup>.

#### *Conclusion for Nature, Scale and Complexity of the Sector*

364. Given that all types of RFB can be provided by both International and Domestic Supervised Firms and to domestic or overseas clients, it is the extent of the volume of activity that differs between Supervised Firms, and which in turn increases the likelihood and impact of risk. International Supervised Firms have a higher degree of vulnerability due to the significant volume of complex cross-border transactions, involvement with unregulated products and entities, and their clients may be responsible for very significant assets under management. In Domestic Supervised Firms, RFB may be lower in volume, but these firms are also instructed by international clients and are more likely to be involved in higher-risk services such as conveyancing. Some firms also hold themselves out as a 'one-stop shop' for most or all of entity incorporation; registered office services; provision of directors; audit and accountancy and liquidation. The overall inherent risks associated with nature, scale, and complexity in Supervised Firms is therefore considered to be medium-high.

#### *Customer Risks*

365. The client base profile of the legal sector in the Cayman Islands varies depending on the size of the Supervised Firm and the legal services offered. The client base includes UHNWIs and HNWIs, PEPs, (both foreign and domestic), charities, NPOs, various types of legal persons and arrangements, as well as natural persons. It is not the case that international firms have only international clients and domestic firms have only local clients. The largest global firm in the Cayman Islands has clients who are ordinary domestic resident companies. At the other end of the size spectrum, there are sole practitioners with international clients (e.g., a New York-based fund sponsor).

366. While there are Supervised Firms with a significant domestic client base, it is more common, particularly in the larger International Supervised Firms, to have most of their professional instructions come from outside the Cayman Islands, and many practices have clients from all over the world, including higher risk jurisdictions. The compatibility of the

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<sup>25</sup> i.e., are outside the scope described in footnote above.

<sup>26</sup> See footnote 24.

<sup>27</sup> i.e., are outside the scope described in footnote above

Cayman Islands corporate vehicles with a wide range of underlying operational activities also means that clients from potentially higher-risk sectors and industries may choose to utilise those vehicles.

367. Since the types of clients who instruct Cayman Islands firms and the transactional context of the services provided can be diverse and complex, Supervised Firms may be less likely to identify when their client account is being misused or when the position of responsibility they are assuming (such as trustee or attorney-in-fact) or the matters upon which they are advising, entails an arrangement that has an underlying criminal purpose. If the attorney-at-law is a willing participant in such schemes, the presence of intermediaries and more complex transactional chains will make it more likely that the attorney-at-law will be able to obscure that effort from others.

#### *International Supervised Firms*

368. International Supervised Firms have the most RFB clients in terms of absolute numbers. In 2020, approximately 32,700 clients or 93% of the total client base of all Supervised Firms were represented by International Supervised Firms.

369. The client base included approximately 681 UHNWIs and HNWIs, of which 72% were non-Cayman Islands, including high-risk countries. PEPs were concentrated in the International Supervised Firms which reported approximately 341 clients (as individuals, or Ultimate Beneficial Owners (UBOs) or controllers of clients that are not individuals) classified as PEPs, of which the majority were foreign PEPs (92%) including high-risk countries, compared to 8% domestic PEPs.

370. Most of the non-resident transactional activity is referred to attorneys by large London, Asian and US law firms. These clients are often nationally recognised, well established, institutional investors and listed companies, sometimes regulated in the US, UK or the EU.

371. Focusing on the usual nature of business of International Supervised Firms' clients, data shows RFB matters were carried out for clients involved in potentially higher risk business areas and particularly property management or development, and money service businesses. According to data held, International Supervised Firms also acted for 37 charities and NPOs of which just over half were foreign.

372. (UBOs of International Supervised Firms' client relationships are predominantly foreign in nature, with approximately 92% of matters in which a company formed, or other legal persons or arrangement, had a non-Cayman Islands UBO. Data held shows a geographic high-risk exposure.

#### *Domestic Supervised Firms*

373. Domestic Supervised Firms on the other hand have a much smaller share of the legal sector's RFB clients in terms of absolute numbers. Data held shows Domestic Supervised Firms acted for approximately 2,100 RFB clients or just 6% of the total client base of all Supervised Firms.

374. The client base of Domestic Supervised Firms included approximately 660 UHNWIs and HNWI, of which 78% were non-Cayman Islands, and included two high-risk countries. This absolute figure is very close to that reported by the International Supervised Firms. In this regard, Domestic Supervised Firms have greater exposure to risk in this category in terms of ratio.

375. Domestic Supervised Firms reported approximately 36 clients (as individuals, or UBOs or controllers of clients that are not individuals) classified as PEPs, of which the majority were foreign PEPs (66%) compared to 34% domestic PEPs. Foreign PEPs data detailed a high-risk jurisdiction exposure.

376. Focusing on the usual nature of business of Domestic Supervised Firms' clients, data shows RFB matters were carried out for clients involved in potentially higher risk business areas, in particular property management or development and high value/luxury goods. According to data held, Domestic Supervised Firms acted for 13 charities and NPOs of which just under half were foreign.

377. Like International Supervised Firms, the beneficial owners of Domestic Supervised Firms' client relationships are predominantly international, with approximately 24% of the total number of beneficial owners coming from the Cayman Islands and the remaining 76% coming from a wide range of countries, including high-risk jurisdictions.

#### *Conclusion for Customer Risks*

378. The inherent vulnerability of the client base of International Supervised Firms is **medium-high**. The risk drivers are the predominantly international-instructing client base, and the presence of UHNWI/HNWI, PEPs, foreign UBOs, and clients operating in higher-risk business areas. The Domestic Supervised Firms are also considered to have a **medium-high** inherent client risk exposure. While the overall number of RFB clients may be less, the firms have a significant international client base, handle cross border activities, and act for PEPs, foreign UBOs, and clients operating in higher-risk business areas. Additionally, the ratio of UHNWI /HNWIs clients is higher in Domestic Supervised Firms.

#### *Transactions and Products/ Services Risks*

379. Generally, law firms in the jurisdiction offer a breadth of legal services including, in the case of the larger international firms, advice and drafting in respect of investment funds (hedge and private equity); banking and finance; insurance; wealth structuring and management, including cross border transactions; capital markets; trusts and corporate services; restructuring; insolvency; dispute resolution, and litigation relating to these services. In the case of the smaller domestic firms, they generally have a practice catering predominantly to the needs of the local population, such as conveyancing, family law and criminal law. As noted above, there are significant exceptions across the size spectrum: global firms can work for local clients, whilst some sole practitioners are instructed internationally. The ML/TF/PF risk for Supervised Firms is largely dependent upon the services, or combination of services, they offer.

380. In 2020, the two most common RFB activities carried out by International and Domestic Supervised Firms were providing (a) legal services relating to the sale, purchase or mortgage of land or interests in land; and (b) legal services relating to the creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

381. Attorneys-at-law in the Cayman Islands are not permitted to directly engage in TCSP activities without TCSP licenses and must register and be supervised by CIMA in this regard. In practice, attorneys seeking to conduct company formation, or any other activity defined as trust company business have established separate TCSP companies specifically to do this, rather than through the law firm itself. Data held shows 75% of International Supervised Firms and 42% of Domestic Supervised Firms have one or more affiliated TCSP.

382. Transaction value and complexity are difficult to ascertain. A significant number of International Supervised Firms are an Entity-Group often made up of several separate entities. Members of the Group may refer business to each other. Much legal work is introduced to the Cayman Islands by large onshore firms of lawyers, and attorneys are rarely involved in the entirety of the client matter. Typically, in respect of funds and corporate matters which involve a Cayman Islands legal person or arrangements, attorneys are engaged to advise solely on the Cayman Law aspect. The entirety of the international transaction however may be complex and involve significant assets worth millions of US Dollars.

383. The legal sector's AML supervisor, CARA, has identified the provision of legal services in the following areas as facing the greatest inherent risk from an ML perspective: the creation of legal persons and arrangements, conveyancing, trust accounts, management of companies and trust services, aviation and shipping, trust services and SPVs and structured finance products.

#### *Creation of Legal Persons and Arrangements*

384. Data held shows that International Supervised Firms advised on the formation of almost 22,000 Cayman Islands entities in the relevant period. To the extent that attorneys-at-law play a key role in the formation of these entities, and therefore act as the primary gatekeeper to the introduction of new market participants, there is the potential that attorneys may inadvertently (or knowingly) allow criminals to directly transfer illegal proceeds through the corporate vehicle or empower them to do so in the future via the ongoing control of the entity or arrangement.

385. When looking at the structure of the Cayman Islands legal persons and arrangements, complexity does not equate to criminality. For example, there is a necessary level of complexity to every hedge fund to allow different types of investors into the collective vehicle. This is legitimate and necessary. However, complexity can be abused by criminals to obscure ultimate ownership and source of funds. Structures that have been developed for legitimate ends may therefore be used for criminal purposes.

### *Conveyancing*

386. While transfers of property do not need to be legally undertaken by attorneys-at-law to be valid in the Cayman Islands, their involvement is a matter of custom and practice. Attorneys in the jurisdiction will customarily hold and transfer the funds for the purchase of real estate and will be deeply involved in the details of these transactions such that they would not occur without their services. Consequently, attorneys-at-law provides a critical gate-keeping role to diligence in two regards: ascertaining whether the parties conducting the transaction are doing so for concerning reasons and ensuring that their accounts are not being used as a direct conduit of proceeds of crime.

387. Notably, Domestic Supervised Firms carried out significantly more conveyancing (87%) when compared to International Supervised Firms (56%).

### *Trust Accounts*

388. Data shows 70% of Supervised Firms operate a client/ trust account. Attorneys provide a level of legitimacy to transactions, and their involvement gives comfort to other parties and banks. Attorneys therefore must be alert to bad actors using legal services to lend respectability, for example, to high-value cash purchases of residential or commercial property in the Cayman Islands.

### *Management of Companies and Trusts Services*

389. Similar to the creation of legal entities and arrangements, attorneys-at-law can be sought out to act as trustees or directors of legal arrangements and entities so that they can conduct a series of improper transactions on behalf of criminal clients (whether intentionally or unwittingly). In a survey, firms were asked if any fee earner, employee, or partner (or equivalent) acted as Directors (or Managers, Trustees or Controllers) of entities (or arrangements) set up following legal advice from the Firm (where that fee earner/employee/partner acted in a professional or paid capacity). Ten firms confirmed this was the case.

### *Aviation and Shipping*

390. The Cayman Islands is an attractive jurisdiction in which to register vessels. Having been in existence for more than a century, the Cayman Islands Shipping Registry is a popular choice for individuals looking to register vessels in a tax neutral jurisdiction with a Registry staffed by an experienced team of shipping professionals. The Cayman Islands offers a full range of ownership methods and registration options including full, interim, provisional, under construction and demise charters. Attorneys-at-law may also be used to register a vessel with the Cayman Islands Maritime Authority.

391. Attorneys-at-law may be utilised to establish Cayman Islands corporate vehicles that are used for the acquisition of assets, such as planes, ships, and yachts, which may lack any physical presence or other connection to the Cayman Islands. Several International Supervised Firms in particular offer expertise in aircraft and shipping finance and the registration of aircraft or maritime vessels, in contrast to very few Domestic Supervised Firms that offer this type of service.

### *Trust Services*

392. The absolute number of Trusts where advice was given in respect of formation in 2020 was relatively small, listed by type: Charitable-21, Private Wealth/ Family-108, Unit Trust-67 and Special Trusts Alternative Regime (STAR)-98. However, survey data from the legal sector highlighted both International and Domestic Supervised Firms perceived high risk in this area, in particular the use of complex structures and potential for the obscurity of ownership.

### *Special Purpose Vehicles (SPVs) and Structured Finance Products*

393. SPVs are considered to be high risk to the extent that they are used by HNWIs and airline and shipping companies. The identity of UBOs may be difficult to identify.

394. Structured finance products are unregulated financial products. The potential harm and impact of this sector can be large. International Supervised Firms hold the market in dealing with structured finance products for both Cayman Islands and Non-Cayman Islands entities.

395. When asked in a survey what legal services (or aspects of legal services) law firms considered to be the most at risk of misuse, the Supervised Firms responded as per the chart below.

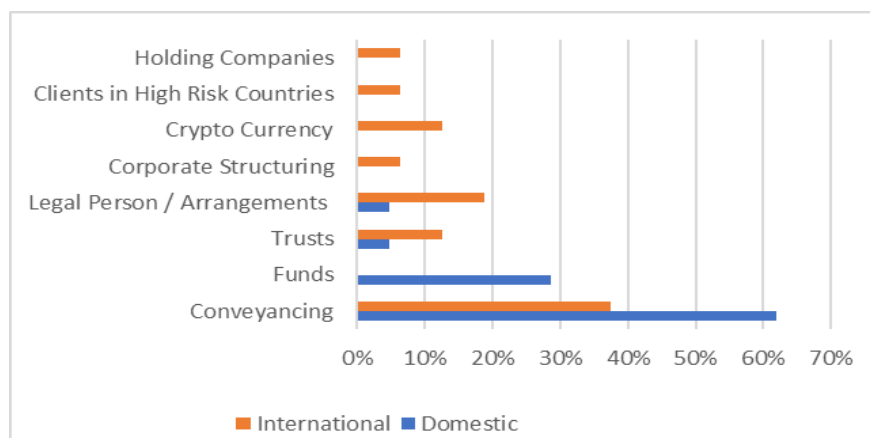


Figure 19: Clients/ Legal Services Considered by Firms to be Most at Risk of Misuse

### *Conclusion for Transactions and Products/ Services Risks*

396. The inherent risks within transactions and products and services are considered to be **medium-high** for both International and Domestic Firms. Both have significant exposure to risks in the formation of legal persons and arrangements, as well as conveyancing.

### *Delivery Channel Risks*

397. The provision of key legal services in the Cayman Islands are almost entirely based around the concept of non-face-to-face business. The Cayman Islands is the most popular jurisdiction for the establishment of hedge funds. Most promoters of such funds



will be in other financial centres. In certain contexts, it makes sense for such business to be conducted as a non-face-to-face business and for business communications to be managed by email and telephone or video/ online conference calls.

398. As noted previously, much legal work is introduced to the Island by onshore firms of lawyers, typically in respect of large transactions involving lawyers from different jurisdictions, being led by one firm acting as leading counsel (e.g., a law firm in London). These international transactions can be very significant, complex and involve large amounts. However, in many cases, the local legal input may be very small, for example providing a legal opinion on a point of Cayman Islands company law for a structure. Potential vulnerabilities, however, still exist because the Cayman Islands' law firm will need to ensure it understands the wider aspects of the full transaction and all key players in the matter--both to be able to provide the best advice and avoid being exposed to the risk of being involved in fraudulent investment schemes or any arrangements designed to evade tax. There is also a risk in practice that onshore counsel will not provide the Cayman Islands law firm with complete details, including client due diligence and or information that may suggest the presence of high-risk factors.

#### *International Supervised Firms*

399. Data held shows most clients in International Supervised Firms are introduced by international professional intermediaries. Seven firms reported receiving client introductions from professional or non-professional intermediaries in a high-risk jurisdiction.

#### *Domestic Supervised Firms*

400. Like the International Supervised Firms, a significant amount of business is introduced by international and local professional intermediaries. However, in contrast, a similar number of clients are also known/met in person. This is to be expected given Domestic Supervised Firms are more likely to cater to the needs of the local population, particularly in connection with conveyancing services.

401. None of the Domestic Supervised Firms reported receiving client introductions from professional or non-professional intermediaries in a high-risk jurisdiction.

#### *Conclusion for Delivery Channel Risks*

402. The reality of business in an International Financial Centre is that non-face-to-face contact is to be expected. This may apply more so to professional advisers, e.g., where law firms in the Cayman Islands are instructed by onshore counsel, than other DNFBPs. Further, it is recognized that the global pandemic has changed working patterns, with fewer face-to-face meetings in any event. Thus, the binary model of 'face-to-face' is low risk and remote is higher risk' is perhaps too simplistic to apply to the domestic legal sector. That said, as noted above, there are risks that introduced-business brings with it which is why various non-face-to-face channels and introductions are considered to be higher risk. In such circumstances, the risk for delivery channels in both International and Domestic Supervised Firms has been rated **medium-low**.

### Overall Conclusion

403. The risk assessment considered the overall inherent risk rating to be **medium-high** for International Supervised Firms and **medium-high** for Domestic Supervised Firms. Whilst it is acknowledged that Domestic Supervised Firms have a much smaller share of the legal sector’s RFB clients in terms of absolute numbers, these firms do provide higher risk services, engage in cross-border activity, and engage with higher risk clients such as UHNWIs/HNWIs, PEPS and foreign UBOs. In conclusion, the overall inherent ML/TF/PF risk for firms of attorneys-at-law conducting RFB in the Cayman Islands is considered to be **medium-high**, due to the materiality of the International Supervised Firms relative to Domestic Supervised Firms.

### II.2.j. Accountants

Table 21: Summary Risk Rating Accounting Sector

<b>Sub-Category</b>	<b>Risk Score</b>
International Supervised Firms	Medium-Low
Domestic Supervised Firms	Medium-Low
Audit	Low
<b>Overall Sector Score</b>	<b>Medium-Low</b>

404. The number of accountants has steadily increased in recent years due to growth for their services in the financial services sector. The Cayman Islands has one of the largest per capita numbers of accountants in the world (1:60). Those seeking to access accounting services in the Cayman Islands can do so relatively easily. Due to the number of individuals offering accounting services, costs are competitive, with those who are professional accountants generally charging more. Professional accountants on the other hand, in particular assurance firms, will be subject to client acceptance and continuation requirements in accordance with international standards issued by the International Audit and Assurance Standards Board, which may restrict this ease of access to services.

405. There are 122 firms registered with CIIPA as accountancy services providers. There are additional persons providing external accounting services that have not registered with CIIPA, including persons described as consultants in the trade and business licensing register. Many entities supervised by CIMA are performing accounting services ancillary to their licensed business, for example as a fund administrator, and this is not within the scope of this assessment.

406. CIIPA is the professional body in the Cayman Islands that licenses and registers firms that provide assurance services. In 2017, CIIPA was designated the AML supervisor for assurance and accounting firms. Of the 122 assurance and accountancy firms, only 27 conducts RFB.

407. For this assessment, the accountancy sector will be divided into the Domestic Sector and the International Sector. As will be seen below, there are a number of services

provided by firms across the entire accountancy sector, and apart from a few exceptions, those firms that provide audit services are catering to an international client base which is predominantly regulated entities. Smaller accountancy firms that do not provide audit services cater to a domestic client base.

### *International Sector*

408. Of the 122 registered firms, 46 are also registered under the Accountants Act and those firms' partners or equivalent are licensed under that Act to perform audit services. Of these public practices (audit) firms, 6 also provide services that are RFB and are thus additionally supervised by CIIPA in accordance with the AML Regulations. An additional 10 firms operate in the international sector providing RFB services and are supervised by CIIPA.

### *Domestic Sector*

409. Of the 122 registered firms, 76 are accountancy services providers and do not provide audit services. They are thus not registered or licensed under the Accountants Act and typically provide bookkeeping or accounts compilation services. Of these 76 accountancy services providers, 11 conduct RFB and are supervised by CIIPA, 10 handle client transactions for which accounting services are also provided, and 1 act as a payment intermediary for the Cayman Islands Government.

410. For all 27 firms conducting RFB in both the domestic and international sectors, the owners are all located in the Cayman Islands, the US, and the UK. There is thus a low risk that the accountants' framework is detrimentally impacted by parental control or influence from high-risk jurisdictions. For the other public practice (audit and assurance) firms, the ownership is either in the Cayman Islands or another medium risk country.<sup>28</sup>

411. The international sector dominates in terms of size<sup>29</sup> and is primarily driven by the demand for audit work, which is due almost entirely to the financial regulator (CIMA) requiring all regulated entities to have their financial statements audited by an approved auditor. Public practice audit firms ("PP firms") have a relationship with CIMA as they are approved to audit regulated entities and have whistleblowing obligations to CIMA if, inter alia, they detect fraud or a breach of the AML Regulations. PP Firms annually confirm to CIMA that they have complied with the POCA

412. An increase in demand for audits does not necessarily increase the number of firms, rather firms grow in staff numbers and resources to meet new demand, as happened with the new regime for Private Funds, which in 2020, required an audit. Other changes resulting in an increased demand for accounting also include other growth in the

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<sup>28</sup> To allow for a structured data gathering and analysis according to geographic exposure, it was necessary to categorize countries in terms of risk. "High risk jurisdictions" were those countries with weak or insufficient AML/CFT measures and countries associated with high degrees of bribery and corruption, tax evasion, terrorism, conflict zones and organized crime i.e., those on the FATF list of high-risk and other monitored jurisdictions, countries against which the United Nations has imposed sanctions, and the countries on the Basel AML Index issued by the Basel Institute on Governance rated higher than 6.55. A second tier of countries deemed medium high risk were those rated between 5 and 6.55 on the Basel AML index. Medium risk were countries that were rated between 3.5 and 5 on the Basel Index and Low risk those below 3.5. Except that the Cayman Islands and regional jurisdictions were reported separately to prove the domestic and regional context.

<sup>29</sup> In terms of clients but also employees.

financial sector and the real estate sector, and the regulation and supervision of NPOs. In addition, the hiring of qualified accountants may be more challenging due to immigration requirements and licensing fees, which may result in greater use of contracting for accountancy services. The number of firms engaged in RFB. and thus, subject to supervision rose from 19 in 2019 to 27 in 2020. This did not reflect an increase in the number of firms, rather an improved awareness of the supervisory regime introduced in 2019 and perimeter policing.

<b>Typology - Accountancy Sector</b>
<p>In 2016 an accountant acting criminally stole assets of an entity in liquidation. The accountant worked in a large accounting firm. The defendant pleaded guilty to theft, forgery and converting criminal property. His total sentence was 3 years 6 months. For the money laundering offences, he was sentenced to 3 years and 2 months to run concurrently with other offences.</p> <p>At the time of the offence, the defendant was a director of the accounting firm and had been appointed joint voluntary liquidator to the Funds from which he stole over a period of 6 months.</p>

413. This demonstrates that even in larger firms with extensive controls there is a risk that professional accountants may behave criminally for their own ends.

414. The otherwise available typologies come from other jurisdictions, many of which involve the provision of TCSP services by accountants since in many jurisdictions this is not separately licensed. Whilst many TCSPs have staff and controllers that are accountants, the activities of accountants who are engaged in TCSP services are not included in this assessment.

415. There are no recorded money laundering prosecutions featuring the accounting sector, no convictions listed and no criminal investigations against accountants in the last 3 years. The FRA has not tracked the number of SARs where an accountant was the subject of disclosure, only SARs made by accountants against others. In 2020, 11 SARs were filed by 4 different accounting firms and 17 by 10 different liquidator firms, all of which are supervised by CIIPA. This represents an increase in previous years, and over the period 2017-2020, 23 SARs were filed by accountancy firms and 45 by liquidators—an increase which is attributed to supervision, which commenced in 2019, and enhanced outreach by CIIPA.

*Risks Associated with Nature, Scale and Complexity*

416. All firms have a physical presence in the Cayman Islands. 22% of supervised accounting firms are economically a sole practitioner.

417. Most supervised accounting firms are small: 26% have less than 5 clients, 48% have 20 or less clients and 67% have 10 staff or less.

418. CIIPA is the professional body for accountants in the Cayman Islands. To be eligible for membership, accountants must meet certain criteria, including that they qualified with an Approved Overseas Professional Accountancy Institute (“OPAI”), who for the purpose of this risk assessment are referred to as “Professional Accountants”. It is not mandatory for all individual accountants to become a member of CIIPA to work as an accountant in the Cayman Islands. However, with the amendments to the AMLRs in December 2017, it is mandatory for a firm of accountants to register with CIIPA, and those that carry on RFB (as defined in the Proceeds of Crime Act) are supervised by CIIPA.

419. As professional accountants are required to qualify through and be a member of an OPAI, there is a reduced risk that they will be coerced or tricked by criminals, provided there is full awareness of the risks, and vigilance is exercised.

420. The risk associated with the nature, scale and complexity of the sector is **low** for auditors and **medium-low** for other accountants.

#### *Customer Risk*

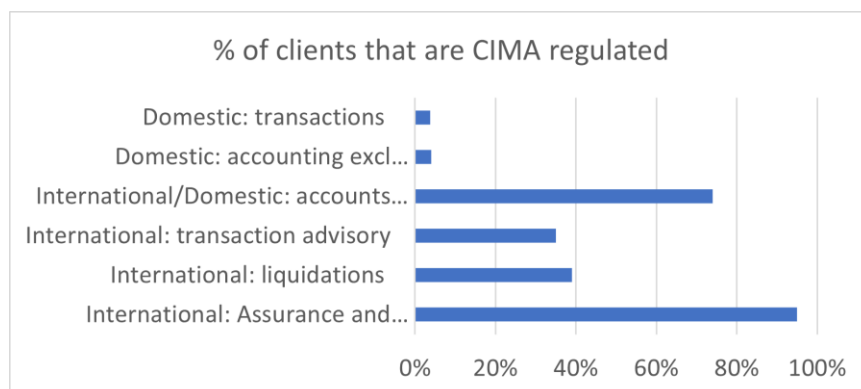
421. The accountancy client base can be divided into domestic and international clients. Domestic clients are mainly provided with accounting services and handling client transactions, whereas international clients receive assurance, liquidation or transaction advisory services. Sole practitioners typically have systems and controls that are less developed than those of larger firms, but all supervised accountants operating as sole practitioners only cater to a domestic client base.

422. Whilst almost all clients of accountants are legal persons and arrangements including domestic clients ( those owned by Cayman Islands residents, for example, trading companies for local businesses), a large proportion are this way because of the trade and business licensing and immigration requirements of the Cayman Islands. Only in limited cases, firms operate locally without at least 60% of their ownership being held by a Caymanian. Data collected by the NRA Working Group showed that for accounting and transaction services, the location of non-CIMA regulated clients and their ownership and control was the Cayman Islands (60% and 80% respectively).

423. For firms that conduct RFB and are supervised by CIIPA, the number of clients in 2020 is around 635. The data collected by CIIPA showed that for the engagements in 2020, 6% of the total client base were considered by the supervised accountants to be higher risk and a further 1.8% were designated as PEPs.

424. For assurance and accounts compilation services, the proportion of clients that are entities regulated in the Cayman Islands is very high (95% and 74% respectively). Data collected on liquidation services showed that 39% of the entities in liquidation were regulated by CIMA prior to liquidation.

Figure 20: Proportion of Clients that are Regulated by CIMA by Service



425. CIMA regulated clients are less common in the domestic sector, however, the shareholders and controllers of these clients are typically individuals who are nationals or residents of the Cayman Islands.

426. A high proportion of clients in the international sector are investment entities. 83.1% of the entities in liquidation were investments or other financial services entities, and more than 97% of these entities are located in a low or medium risk country. Taking that into account more than 80% of the entities in liquidation may be considered lower risk, given that they were regulated prior to liquidation. Due to the introduction of the Private Funds Act in 2020, going forward a higher proportion of the liquidation clients are expected to fall within the scope of CIMA's supervision<sup>30</sup>. Investment entities are common in the Cayman Islands and there is thus an advanced understanding of their nature which has the effect of reducing the vulnerability for most accountants. Further, regulation by CIMA significantly mitigates the vulnerability of accountants.

427. Data on the geographical location of the entity shareholders and controllers were gathered on the clients of accountants that are not regulated by CIMA. This demonstrated that for assurance and related Services and liquidation services the country risk is low as more than 90% of clients and their controllers and owners were in low or medium risk countries. For other accounting services, the geographical risk was medium-high as between 17% and 36% of owners and controllers of clients were in medium high-risk countries.

428. Looking more closely at this in Transaction Advisory it is noted that this includes tax services, and this accounts for more than 96% of the transaction advisory work. Further details on this are set out in services and transactions risk below.

429. Supervisory data indicates that 6% of engagements were assessed by firms to be higher risk. These assessments could have been a result of a number of higher risk factors

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<sup>30</sup> The high number of investment clients is to be expected given that firms often act for entities in international groups or for master feeder fund structures and some of the data preceded the private funds regime when there were several non CIMA regulated funds in the Cayman Islands.

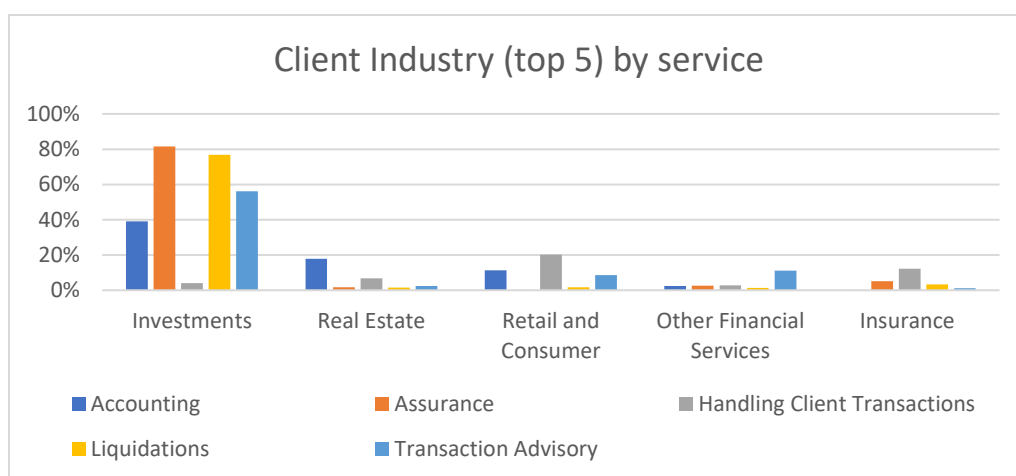
including country risk, industry risk, governance concerns, and ownership complexity. Thus 6% can be taken as a maximum proportion of clients with complex ownership.

430. A high proportion of clients using assurance, transaction advisory, and liquidation services operate in the investment sector (75-81%), which is typically regulated and thus of low to medium-low risk. Whereas the clients using accountancy services, 39% of which were in investments, and this again will entail regulated entities.

431. For handling client transactions services, the most popular sectors of clients were retail and consumer (20%) and hospitality (14%), and this reflects the needs of the domestic market. Retail and consumer may also be at higher risk if entailing hospitality cash transactions.

432. Sectors considered higher risk was not common amongst clients: the virtual assets and currency sector represented less than 1% in assurance services clients and did not feature in others. Energy, utilities, and resources represented less than 5% across all services and pharma and life sciences less than 1% across all.

Figure 21: Client Industries (top 5)



### *Conclusion for Client Risk*

433. Across all services, except transaction advisory, less than 3% involve a high-risk country. Less than 2% of the supervised client base are considered to be PEPs and 6% are higher risk more generally. However, there is a high proportion of clients that are legal persons and arrangements, but this is for rational reasons other than to obscure ownership. Further, due to the services provided, firms should consequently have a good understanding of the clients' business and source of funds. A high proportion of clients are regulated or were formerly regulated. Thus, the vast majority of clients are either beneficially owned by locals or are clients that are licensed and supervised by CIMA. High-risk underlying industries are a very low proportion of both Domestic and International client bases. Thus, most clients are assessed to be **low risk**.

### Services and Transactions Risks

434. There are currently 122 firms providing accounting and audit services and registered with CIIPA. 27 of these firms are providing services that constitute RFB. The following table includes the services provided by the accounting sector and which were assessed.

Table 22: Types of Accounting Services Provided

Service Description	Vulnerability
Accounting including accounts compilation	<b>Medium-Low:</b> Usually low risk since this service entails the recording of historical transactions. However, the possibility of false accounting, a common method by which the source or ownership of funds may be obscured, raises the risk.
Assurance, audit, reviews, related services and agreed-upon procedures.	<b>Low:</b> Whilst providing assurances to third parties about the fair presentation of accounts entails work about historical transactions, the reports provided can be used to give credibility and thereby less scrutiny or monitoring by law enforcement or regulators, generally. The vulnerability is reduced through a strict set of statutory obligations related to the small group of practitioners who offer the service, who must be licensed, and are subject to periodic monitoring by CIIPA and by other audit supervisory bodies as applicable.
Liquidations	<b>Medium-High:</b> Liquidation services providers are exposed to risk where a person is not qualified, competent or has conflicts. In the case of court appointments (official liquidations and provisional liquidations), there are mitigating factors namely the supervision of the court and the fact that only qualified insolvency practitioners <sup>31</sup> may provide the service. In addition, the assets are frozen on liquidation and generally, no new client relationships are formed. This may be outweighed by the higher risks presented such as the increased potential for fraud to have occurred prior to liquidation and difficulties in obtaining information in a timely manner from potential wrong-doers (noting that in such scenarios the appointment of court-supervised liquidators may likely be for the primary purpose of investigating possible fraud).
Handling client transactions from client bank accounts and	<b>Medium-High:</b> A service commonly offered by accountants is to initiate transactions for local clients either by acting as a signatory on cheques or as initiator or approver of online

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<sup>31</sup> i.e., liquidators



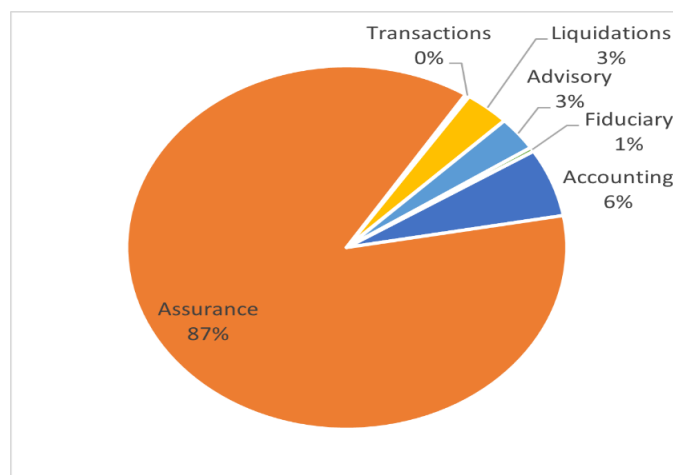
acting as a payment intermediary.	transactions. Payroll is a specific type of transaction entailing the transfers or handling of funds and accounts.
Controllerships:	<b>Medium-Low:</b> Persons may be appointed as a controller of a regulated entity by CIMA. The terms of the controllership are determined by CIMA but typically entail taking over the operations of the firm which would constitute RFB. The supervision by CIMA mitigates the risks. Just 2 controllerships were reported by the CIIPA registered firms in 2020.
Transaction Diligence Advice and Valuations, Business Advisory in relation to mergers and acquisitions or the issue of securities.	<b>Low:</b> The risk increases if there is a closer nexus of the advice to a transaction or if assets are handled.
Tax Compliance	<b>Low:</b> Entails assistance with filings and this amounts to 58-87% of all taxation services. Accountants that are not sceptical and scrupulous in understanding the affairs of their clients are however more vulnerable.
Tax Advisory	<b>Medium-High:</b> This type of service could be used to facilitate tax evasion and increased focus on tax compliance (e.g., Common Reporting Standards and US FATCA) may result in attempts to use new methods for evasion.

435. According to the data collected, the most common service by client count is audit (87%). Audit is separately supervised by CIIPA under the Accountants Act and systems are reviewed to ensure that international auditing standards and standards of quality controls (ISQC1)<sup>32</sup> are complied with.

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<sup>32</sup> Issued by the International Federation of Accountants standard setting board IAASB.

Figure 22: Proportion of Engagements by Type of Service



Other services, in particular liquidations, do present a risk of ML, TF & PF and fraud and thus correlate with the typology set out above. This is due to the requirement for liquidators to make distribution payments of an entity's residual assets. Further whilst the size of this subsector appears small (3%) this only represents the Cayman Islands supervised accountancy services providers. There are other firms providing liquidation services many of whom are likely unsupervised for the reasons explained above. This assessment only covers the subsector that is supervised by CIIPA. In addition, this data is based on client count rather than the number of engagement hours.

436. Risks associated with TF, PF and TFS-contravention primarily arise specifically for accountants where they handle client transactions, with the risk varying according to the degree of control over the funds or transactions. Further, the risk increases where payees or beneficiaries of transactions are outside of the Cayman Islands. Data collected indicated that \$2.2million was paid to payees in high-risk countries during 2020 and \$51million to medium high-risk countries.

437. It is unlikely that accountants in the Cayman Islands act as introducers of clients to other regulated sectors as they typically provide a discrete service rather than a range of services and also are required to maintain their independence according to the IFAC Code of Ethics.

#### *Value of Assets and Transactions*

438. Generally, transaction risk in the sector is low. Those accountants handling client transactions are considered to be insignificant in the context of the overall transactions conducted by the financial services industry. Cash is not handled, and no accountancy service providers fees were paid in cash (coins and notes) or virtual assets. This however is not uncommon, as the risks often associated with accountants is in their advisory capacity rather than on the transaction aspects.

439. The outlier is liquidation services where transactions are more common with larger transfers and receipts to and from medium high-risk countries and high-risk

countries. This signifies the risk in these services since the appointment itself presents a low risk.

#### *Conclusion for Services Risk*

440. The prevalence of the low-risk service of audit which itself is regulated results in a low assessment for services risk. The transaction risk for other accountants is low for the sector as a whole given its low prevalence.

#### *Delivery Channel Risks:*

441. The delivery channels of the accounting sector vary, depending on whether there are local or international clients. Many firms providing accounting services to local clients, not only have regular face to face contact with their clients but perform their services at the clients' premises given the small size of the Cayman Islands. Whereas for international clients there may be no physical face to face encounter. However, this service has developed to include initial meetings which are conducted by technology meeting platforms and in the case of audit part of the audit team may be located overseas in the vicinity of the client and attend the clients' premises.

442. Eligible introducers are not used by firms in the supervised sector. However, in the liquidations sector, intermediaries (e.g., a regulated fund administrator) are often relied on to make financial distributions to stakeholders where the intermediary remains in a relationship with those stakeholders e.g., fund administrators with investors. Delivery channel risk could be heightened if intermediaries for payments are based in high-risk jurisdictions, but firms providing liquidation services reported the stakeholders were 35.7% in the Cayman Islands, 26.5% in the US and 19.5% in medium-risk countries which gives an indication of the location of any potential intermediary. In addition, the risk is mitigated given the presence of a legal process for liquidators to hand over residual funds to the Financial Secretary of the Cayman Islands in circumstances where they are unable to locate stakeholders or perform appropriate client due diligence for the distribution of assets.

#### *Conclusion for Risk Category Delivery Channels*

443. There is a large dependency on non-face to face delivery channels for firms with an international client base but not in accounting firms with a local client base. However, online platforms and extensive knowledge of the business activity and source of funds reduces the risk. No accountants are known to be servicing clients with whom they never have any direct engagement. Liquidators are required to make distributions to stakeholders once claims are proven and this may be impossible in certain cases without reliance on others, although there are options to not make the distribution where due diligence cannot be completed.

#### **Conclusion**

444. The sector's vulnerability is directly related to the sectorial risks faced by the entities to which audit and accounting services are provided. Considering the above, the overall ML/TF/PF risk for the accounting sector is **medium-low**. Most clients in the

International Sector are regulated and the clients in the Domestic Sector are a much smaller proportion of the sector and are thus less material.<sup>33</sup>

445. Accountants and auditors are highly significant to the financial services sector. They add credibility to the industry by ensuring accounting frameworks and auditing standards are observed. This results in transparency and accountability and ensures that the financial reporting on which the financial regulator and other stakeholders depend, is accurate and reliable. There would be no credible financial services industry without accountants and auditors and thus we cannot evaluate the effect of removing the accounting sector. Whilst the presence of certain accounting firms may attract some business to the Cayman Islands, generally, the impact of their presence is far greater as a mitigant than any business generating effect, in that firms ensure quality rather than quantity of business, thus reducing rather than increasing risk.

Table 23: Summary of the Accounting Sector Vulnerabilities

<b>Vulnerability</b>	<b>International<sup>34</sup></b>	<b>Domestic<sup>35</sup></b>	<b>Audit</b>	<b>Overall Rating</b>
<b>Nature and Size</b>	Medium-Low	Medium-Low	Low	Medium--Low
<b>Client</b>	Medium-Low	Low	Low	Low
<b>Services</b>	Medium-High	Medium-Low <sup>36</sup>	Low	Medium--Low
<b>Delivery channel</b>	Medium-Low	Low	Medium--Low	Medium--Low
<b>Total</b>	Medium-Low	Medium-Low	Low	Medium-Low
<b>Sector</b>	<b>Medium-Low</b>			

#### II.2.k. High-Value Dealers

Table 24: Summary of Risk Rating for High-Value Dealers

<b>Sub-Sector</b>	<b>Risk Score</b>
High-Value Dealers	Medium-Low

446. For the purposes of the risk assessment, a high-value dealer is a firm or sole trader that, by way of business, trades in goods (including an auctioneer dealing in goods), which are not precious metals or stones, and receives in respect of any transaction a payment, meaning a payment or payments in cash of at least US\$15,000. Primarily, the sector is

<sup>33</sup> The risk assessment was performed based on the data provided and in any such exercise there is an inherent risk of drawing conclusions from a data set that may not be complete given surveys were not mandatory for unsupervised firms. It is expected that the risk in the unsupervised sector may be higher.

<sup>34</sup> Including Transaction Advisory and Liquidation services (note that this excludes liquidation firms that are not supervised by CIIPA).

<sup>35</sup> Accounting, including accounts compilation and handling client transactions.

<sup>36</sup> Taking account of the proportion of firms engaged in transaction services (medium-high risk) 11 out of 77.

comprised of 37 dealers in motor cars, with 5 dealers capturing 100% of the new car sales market, and one boat dealer. The sector is domestic in nature and relatively small, forming a fraction of the “Wholesale and Retail Trade” sector in the jurisdiction’s System of National Accounts Report 2019.

447. All high-value dealers operating a business in the Cayman Islands are required to be registered with and licensed by the Trade and Business Licensing Board under the Trade and Business Licensing Act (TBLA). High-value dealers are not currently designated as RFB within the meaning of section 2 of the POCA.

Table 25: Overall Summary of Risk High-Value Dealers

<b>Risk Category</b>	<b>High-Value Dealers</b>
Nature, size, complexity	Medium-Low
Customers	Low
Transactions, products and services	Medium - Low
Delivery Channels	Low
<b>Overall</b>	<b>Medium-Low</b>

*Nature, Scale, and Complexity of the Sector*

448. The sector is comprised of 37 dealers in motorcars servicing the local market and one boat dealer. This makes it a very small contributor to the Cayman Islands economy. The typical operation of motor car dealers is to import vehicles for resale to the local market. In the market for motorcars, there is diversity in the nature, scale, and size of operations with a marked distinction between the market for new cars and used ones. In the market for new cars, there are three large dealers, which dominate approximately 85% of the market, and two medium-sized dealers which capture the remaining portion. On average, new car sales number in the region of 1300 – 1400 cars per year.

449. The sector in relation to boats is not complex, with the importation of boats from the United States and sale on the local market. The focus is on new boats, with a few instances where second-hand boats are sold, particularly in circumstances where a customer would like to upgrade a boat and it is sold on their behalf. The price of boats may vary depending on the type and size and may fall within a range of \$40,000 to \$300,000.

450. A rising trend identified by motor car dealers, and which could pose a risk of money laundering, is that of individuals importing vehicles ostensibly for their personal use but with the underlying intention of holding the vehicle for a month or two and then re-selling it. By doing so, they purport not to be in the business of buying and selling vehicles and therefore avoid the need for a trade and business license. Motor car dealers in the Cayman Islands share a similar and simple business model. Vehicles are imported from non-high-risk jurisdictions and sold on the domestic market typically through the initial payment of a deposit and the remaining payment is submitted subsequently. There

are limited reports of finance leasing and auction sales taking place, but the evidence obtained was not sufficient to determine the scale of those activities.

451. Considering these factors, the risk associated with the nature, scale, and complexity of the sector is “**medium-low**”.

#### *Customers*

452. Clients of motor car dealers in the Cayman Islands are primarily natural persons who reside in the Cayman Islands, with about 5-10% of customers being companies. Where clients are companies, they are locally established, operate businesses such as rent-a-car services, and are known to the dealer. There are very few clients located in a foreign jurisdiction (approximately 1 – 5%) and there is no evidence that in these cases, the client is in a high-risk jurisdiction. Where clients are from other jurisdictions, it is usually in cases where someone would be moving to the Cayman Islands and engages the car dealer to secure a specific make/model of vehicle prior to arrival. There are also circumstances where clients reside in a foreign jurisdiction but purchase and maintain a car in the Cayman Islands for purposes of their use when visiting. On some occasions, a client may reside in the Cayman Islands but funds to settle the transaction are provided by a third party located overseas, usually a family member. There is no evidence of motor car dealers conducting transactions with foreign PEPs.

453. Clients within the boat sector are primarily (99%) natural persons who are residents in the Cayman Islands. There is no evidence of customers coming from high-risk jurisdictions or who are foreign politically exposed persons.

454. Considering these factors, the risk associated with customers is “**low**”.

#### *Transactions, Products and Services*

455. The primary product and service provided in this sector is the sale of new or used cars or new or used boats. Prices for cars within the market vary significantly, with anecdotal evidence that some used cars, due to considerable modifications, can fetch prices as high as those of luxury cars, which can be over \$200,000.00. Purchasing a car may involve the down payment of a deposit to reserve the car for that purchaser and then the provision of the final payment. The transactions are not complex and are usually conducted through wire transfers, cheques, or internal bank transfers.

456. Throughout the motorcar sector, it is highly unusual to see cash payments of more than \$10,000 and such payments have been rejected by dealers. Attempts to purchase cars with 100% cash are uncommon, with one dealer reporting seeing such attempts on about three occasions in the past ten years. Payments of more than \$10,000 would instead be done by wiring the funds directly to the dealer’s bank account or by an internal bank transfer. Payments are also done by way of credit cards and bank drafts. One instance of an attempt to purchase a car by way of Bitcoin was highlighted, however, this transaction was not accepted.

457. Prices for boats can range between \$40,000 and \$300,000 depending on the type and size of the boat. Payments are made through bank transfers and cash payments for the purchase of boats is not seen within the sector.

458. The risk associated with transactions is, therefore, determined to be “**medium-low**”.

#### *Delivery Channels*

459. Most transactions in the motor car sector (above 95%) are conducted on a face-to-face basis with only a few clients initiating purchases by telephone or online. Non-face-to-face engagement typically takes place where persons moving to the island contact motor vehicle companies by email, telephone or through social media. These clients will typically conclude the transaction when picking up their car at the dealership.

460. Although one entity reported being engaged in auction sales, there is not sufficient information to indicate the scale of auction sales activities taking place within the jurisdiction.

461. In the boat sector, sales of boats are made face-to-face with no online sales. Potential clients can get quotes online for boats; however, the final sale is made in person.

462. As a result, the risk associated with the delivery channels is “**low**”.

### **CONCLUSION**

463. The analysis and assessment of the high-value dealers' sector resulted in a **medium-low** risk score due to the materiality of the sector, the simplicity of the transactions and business model and the absence of clients or suppliers from high-risk jurisdictions. Further, transactions are predominately face-to-face.

#### *II.2.1. Money Lenders*

##### *Sector Overview*

Table 26: Summary of Risk - Money Lenders

<b>Sub-sector</b>	<b>Risk Score</b>
Money Lenders	Low

464. There are twenty-three (23) money lenders regulated under the TBLA in the Cayman Islands. Each money lender is required by law to register with the DCI for which the application is vetted, and due diligence checks are also conducted.

465. Currently, money lenders are not supervised for AML/CFT purposes in the Cayman Islands, however, they are captured by the AMLRs as performing RFB as defined in section 2 of the POCA and must implement an AML/CFT framework which includes policies and procedures and obtaining CDD. Based on the assessment, they are classified as having a low inherent risk.

Table 27: Summary of Risk Category Money Lenders

Risk Category	Money Lenders
Nature, scale, complexity	Low
Customers	Low
Transactions, products and services	Low
Delivery Channels	Low
<b>Overall</b>	<b>Low</b>

*Nature, Scale and Complexity*

466. The scale of the money lending businesses in the Cayman Islands is relatively small. The industry consists of limited liability companies as well as sole traders. Most of the sole traders are individuals who have full-time jobs and conduct the money lending business as an additional form of income. The financing provided by these businesses is classified as short-term payday loans. The loan facilities that are provided are low and unsecured. No collateral is requested as a means of securing the loan. Based on the above factors the risk for the nature, scale and complexity of the sector is **low**.

*Customers*

467. The client base for money lenders in the Cayman Islands is resident natural persons. Due to the COVID-19 pandemic, some clients have returned to their country of origin due to the lack of employment. Most of the target market are lower-income earners who would need cash to pay a bill or in the event of an emergency, in which cash is not available but is required until the individual receives his/her salary. It appears no information is typically collected on whether a client is borrowing money on behalf of another. There is no evidence that money lenders have conducted business with PEPs. Based on the above factors the risk for the customers of the sector is **low**.

*Transactions, Products and Services*

468. The services provided by this industry consist of short-term payday loans. Loans are disbursed by cheques or cash and repayments are typically made by cash, debit cards, and direct deposits.

469. The loans that are disbursed are small, usually around \$400. The maximum loan amount that a client can receive is based on his/her salary. There is no evidence that there are large disbursements of cash. In the past two to three years, the trend on usage for physical cash is decreasing due to the increased use of online transfer services, and more recently, the COVID-19 lockdown. Most of the loans that are disbursed are repaid bi-weekly or at the end of the month. Based on the above factors the risk for the transactions, products and services of the sector is **low**.



### *Delivery Channels*

470. Typically, clients are onboarded in a face-to-face interaction at the store premises or a mutually convenient location. Most of the transactions conducted are with repeat customers. The only form of non-face to face transactions that take place is with repayments which are direct deposit to an account, remote debit card payment and online transfers. There is no evidence that entities provide any of their services through an agent.

471. The delivery channels risk of the sector is “**low**”.

### **CONCLUSION**

472. The analysis and assessment of the money lenders sector resulted in a “low” risk score due to the size of the industry and the small transaction amounts involved.

### *II.2.m. MSBs*

#### Sector overview

Table 28: Summary of Risk Category MSBs

<b>Sub-Sector</b>	<b>Risk Score</b>
MSBs	Medium-High

473. MSBs in the Cayman Islands are regulated in accordance with the Money Services Act (“MSA”). The MSA defines a money services business as (a) the business of providing in or from within the Islands any of the following services: money transmission, cheque cashing, currency exchange, the issuance, sale or redemption of money orders or traveller’s cheques and such other services as the Governor in Cabinet may specify by notice in the Gazette or (b) the business of operating as an agent or franchise holder of a business mentioned in (a).

474. The Cayman Islands MSB sector is relatively small compared to the other financial services industry sectors and therefore is less material. Currently, three (3) licensed MSBs are operating in the jurisdiction primarily offering money remittance/transfer services. The three (3) active MSB licensees utilize agents in conducting their businesses. Transactions are not complex and undertaken face-to-face. A very small percentage of customers are local PEPs. There are no customers that are foreign PEPs. Remittances are predominantly consistent with the countries of origin of the expatriate resident customers.

Table 29: Summary of Risk MSBs

<b>Risk Category</b>	<b>MSBs</b>
Nature, scale, complexity	Medium-High
Customers	Medium-High

Transactions, products and services	High
Delivery Channels	Medium-Low
<b>Overall</b>	<b>Medium-High</b>

*Nature, Scale, and Complexity*

475. During the period July 2019 to June 2020, the data indicates that the MSBs processed about US\$245.6 million in remittances, comprising of US\$238.6 million of outgoing remittances and US\$7 million of incoming remittances. MSBs play a vital role to the expatriate community through the provision of a platform for the remittance of financial support to their families, especially to those countries where the population of the unbanked is still high. However, the MSBs sector has very few players and is by far smaller than the banking sector as far as the volume of transactions, complexity of operations, global interconnectedness and the number of licensed operators is concerned. The domestic market is presently serviced by three (3) licensed MSBs, two (2) of which serve a majority of the customers. The three licensed (3) MSBs utilize agents which operate from more than one location in the jurisdiction, in total, they operate from 18 locations. The small number of the MSBs operating in the Cayman Islands with a narrow array of products and services coupled with the simple business models reduce vulnerabilities in this category from a generic high risk to medium-high risk. However, the MSB sector is cash-intensive, and furthermore, the parent companies of two of the three (3) active MSBs, are in jurisdictions subject to increased monitoring by the FATF, which may elevate the risk. Considering these factors, the risk associated with the nature, scale and complexity of MSBs is **medium-high**.

*Customer Risk*

476. Customers of MSBs are all-natural persons mostly residents in the Cayman Islands. The Cayman Islands MSBs mainly serve the expatriate community, although individuals that have acquired Caymanian status generally continue to maintain strong connections with their countries of origin. Statistics<sup>37</sup> collected from the MSBs by CIMA indicate that for the period between July 2018 to June 2019, MSBs served a total of 67,367 customers. Many MSB customers use more than one MSB, as they seek to maximize the relatively small remittance by seeking the most favourable fees or exchange rates. Additionally, the MSB of choice is often based on whether there is an agent in the recipient’s area. As such, the actual number of customers might be lower.

477. Work permit<sup>38</sup> holders consist of approximately 40% of the population in the Cayman Islands from a cross-section of countries. In terms of geographic risk exposure, half of the customer base of MSBs are foreign nationals from high-risk countries<sup>39</sup>. Additionally, a small number of customers are domestic PEPs; therefore, the value of remittances by PEP customers reported was minimal. In general, customers of all MSBs

<sup>37</sup> <https://www.cima.ky/survey-results-2>

<sup>38</sup> [https://www.eso.ky/UserFiles/right\\_page\\_docs/ums/files/uploads/the\\_cayman\\_islands\\_compendium\\_of\\_statist-10.pdf](https://www.eso.ky/UserFiles/right_page_docs/ums/files/uploads/the_cayman_islands_compendium_of_statist-10.pdf)

<sup>39</sup> <https://www.cima.ky/survey-results-2>

are natural persons, mostly residents in the Cayman Islands with some customers being visitors, and there is very limited exposure to high-risk customer types, such as foreign PEPs. There are a number of customers from countries deemed to be at higher risk for ML/TF which may elevate the risk<sup>40</sup>, however, the demographics of the expatriates are consistent with the receiving countries for remittances. The assessment of the customer base concludes that there is **medium-high** risk exposure for types of customers.

### *Transactions, Products, and Services*

#### *Transactions*

478. MSBs processed about US\$261.6 million outgoing transfers with a minimal amount being incoming. There was a significant number of remittances to various jurisdictions, some of which carry a higher geographic risk exposure. Remittances to these high-risk countries as well as to other jurisdictions are consistent with the demographics of the Cayman Islands' expatriate community. Inflows of remittances from other countries to the Cayman Islands amounted to US\$7 million<sup>41</sup>. While most of the inflows came from non-high-risk countries, only a very minimal amount came from high-risk countries<sup>42</sup>. Incoming remittances<sup>43</sup> are also consistent with the demographics of the Cayman Islands expatriate community, therefore the transaction risk for this sub-sector is medium-high.

479. The industry has indicated that as a result of the COVID-19 pandemic they have observed a decrease in the volume of transactions, with an increase in value of individual transactions as a result of the pension pay-outs and customers providing more assistance to families during the pandemic. However, this has not had a material impact on the relevant risks.

480. MSBs other business activities include the purchase and sale of foreign currency, bill payment and mobile credit top-up. Foreign currency customers mainly exchange the United States dollar for the Cayman Islands dollar or vice versa and most often to facilitate a further money transfer. While these products are not complex, they are cash-intensive and as a result, carry a high inherent risk, thus making the risk exposure for products and services high.

481. While transactions have been rated medium-high risk, the overall risk rating for transactions, products and services has been determined as **high** risk due to the cash-intensive nature of the products.

#### *Delivery Channels*

482. All customers are interacted with on a face-to-face basis. No licensed MSB indicated that they onboard customers via an online platform or provide e-services. The use of agents is minimal considering the number of customers reportedly being served by

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<sup>40</sup> Ibid

<sup>41</sup> Ibid

<sup>42</sup> Ibid

<sup>43</sup> Ibid

the three (3) active MSBs. Furthermore, there is no use of group entities in the delivery of services due to the nature of the MSB sector whereby customers are face-to-face.

483. As such, the risk for delivery channels has been rated **medium-low**.

### Conclusion

484. Data analysis for the MSBs sector concluded that MSBs face a medium-high inherent risk. While the risks emanating from the nature of the sector, types of customers are determined to be medium-high, the risks associated with the products and services are high, mainly due to the cash intensity of the remittance business. The delivery channel risk has been rated as medium-low as transactions are completed predominantly face to face. The assessment of the “nature, scale and complexity of the sector” resulted in a composite ML/TF risk rating of medium-high for the sector, specifically the relatively small size of the MSB sector when compared to the Cayman Islands overall financial system.

## II.2.n. Financial Leasing

### Sector Overview

Table 30: Overall Rating Financial Leasing

Sub-Sector	Risk Score
Financial leasing	Medium Low

485. A financial lease is a contract generally under which a manufacturer and a finance company or a bank (lessor) deliver to a natural person or legal entity (lessee) possession of an asset in exchange for the periodic payment of a sum of money during an agreed period. Upon the expiration of this period, the lessee may have the option to acquire the asset for the value of the purchase option.

486. Pursuant to section 2 of the POCA, financial leasing is listed as an activity that is considered a RFB and is thus subject to AMLRs, requiring those engaged in the activity to maintain AML/CFT policies and procedures. Financial leasing is done in various sectors and with different players, including banks and lawyers who act on behalf of legal and natural persons. In the Cayman Islands, this activity takes place in the maritime, aviation, equipment and motor vehicles sectors<sup>44</sup>. However, this review focuses on those sectors with significant international business.

487. Based on the assessment that follows, financial leasing is classified as having a **medium-low** inherent risk.

<sup>44</sup> FATF excludes financial leasing for consumer goods.

Table 31: Summary Rating of the Financial Leasing Sector

Risk Category	Risk Score
Nature, Size, Complexity	Medium-Low
Customers	Medium-Low
Transactions, Products and Services	Medium-Low
Delivery Channels	Low

*Nature, Scale, Diversity and Complexity*

488. A total of 729 companies were identified as parties to finance leasing arrangements of aircraft and marine vessels. Further, 11 law firms were identified as facilitating financial leasing arrangements, with a few being prominent in the space. Additionally, 21 companies were identified as being involved in auto-leasing, and 3 in the leasing of equipment. However, as previously mentioned, the assessment focuses on financial leasing with a significant element of international business.

489. The scale of financial leasing arrangements in the Cayman Islands appears to be relatively extensive amongst the firms with an aviation and maritime practice. Transactions may be complex depending on the terms of, and parties, to the arrangement. These financial leasing arrangements ordinarily involve the use of a SPV, with ownership by a trust and a trustee that hold the shares of the SPV. As part of a structured finance deal, the Cayman Islands SPV purchases the assets from the proceeds of notes issued in favour of certain finance houses in low-risk jurisdictions, and in turn lease those assets to private operators and governments in various jurisdictions, which may include those considered high risk for ML/TF/PF.

490. The fact that these arrangements usually involve multi-jurisdictional structures may increase the vulnerability of such arrangements to criminal abuse. However, as such leases are normally for more than three years, their attractiveness for money laundering purposes is reduced.

491. Based on the above factors, the risk for the nature, scale, diversity and complexity of the sector is **medium-low**.

*Customers*

492. The client base for financial leasing arrangements for aircraft and shipping vessels is made up of legal entities which are predominantly non-resident. These clients are generally finance houses, usually, well-established banks, primarily based in lower-risk jurisdictions and subject to AML obligations. However, there are some clients with parent companies from high-risk jurisdictions. Notwithstanding this, the clients with whom Cayman Islands law firms engage are primarily incorporated in lower-risk jurisdictions and are subject to regulatory oversight. It should be noted that most, but not necessarily all, of these finance house clients are publicly listed on various exchanges.

493. There is no evidence that there are clients who are PEPs.

### *Conclusion - Customers*

494. Customers are generally legal persons listed on various international exchanges, primarily in lower-risk jurisdictions. There is no evidence that there are clients who are PEPs in this sector.

495. Based on the above factors the risk for the customers of the sector is **medium-low**.

### *Transactions, Products and Services*

496. As noted above, transactions are conducted through the use of trusts and SPVs which are established by the law firms or corporate service providers within the jurisdiction on behalf of the finance house client which is normally based in a foreign jurisdiction. Transaction values can be high with the cost of an aircraft starting in the region of \$80 million to over \$100 million and shipping vessels starting in the region of \$40million to over \$100 million. Wire transfers, (largely through correspondent banks in New York) are the standard forms of payment. There are no cash payments involved in these arrangements. Funds that enter the jurisdiction are solely for the payment of fees for legal or corporate services.

### *Conclusion- Transactions, Products and Services*

497. The services provided within the jurisdiction involve the establishment of SPVs on behalf of finance house clients. Payments are normally done as electronic transfers and there are no cash payments.

498. Based on the above factors the risk for the transactions, products and services of the sector is “medium-low”.

### *Delivery Channels*

499. Transactions are largely conducted electronically. Interaction with clients may also be in person but this is not required with the range of electronic and virtual communications options. Payments are made electronically. There is some evidence that clients may be on-boarded using an intermediary.

### *Conclusion-Delivery Channels*

500. Payments are done by electronic transfers to the SPV through banks normally based in New York.

501. Based on the above factors the risk for the delivery channels of the sector is low.

## **Conclusion**

502. The analysis and assessment of the financial leasing sector resulted in a medium-low risk score due to financing terms being of a longer period. Clients are generally commercial entities based in lower-risk jurisdictions and listed on various international exchanges, there is no evidence of engagement with PEPs and the business is not cash-intensive but primarily conducted through the use of electronic funds transfer.

## II.2.o. Virtual Assets and Virtual Asset Service Providers

Table 32: Overall Risk Rating for VA and VSAPs

<b>Risk factor</b>	<b>VASPS</b>
Overall Rating	Medium-High

503. In 2020, virtual assets (“VAs”) made a significant advancement into the mainstream global economy. They are increasingly being integrated into the traditional financial services sector, gaining them legitimacy, credibility and stability. Figures vary widely, but in 2020, the transaction volume of VAs was estimated to be worth US\$3 trillion,<sup>45</sup> and this figure continues to grow rapidly. More than 100 million bitcoin wallets now exist around the world, with 1 million bitcoin wallets active daily.<sup>46</sup>

504. However, VAs are vulnerable to abuse by criminals. They can help disguise the origin of illegally obtained funds or be used to fund terrorist activities. VAs are secured, digital representations of value or contractual rights that use a form of distributed ledger technology and can be transferred, stored or traded electronically. Criminals may transfer, integrate and layer illicit funds into VAs, and then back to fiat currency, to obfuscate the original source and purpose of the asset. Virtual asset service providers (“VASPs”) are key gatekeepers in maintaining the integrity of the digital financial system, as they act on behalf of other persons to facilitate the safe custody, exchange or investment of VAs.

505. Notwithstanding the above, VASPs are less material than other sectors in the Cayman Islands. They hold customer assets of approximately US\$4.1 billion, with daily transaction volumes of approximately US\$5.6 billion. This represents only 2% to 3% of global daily transaction volumes. VASPs are only just entering the regulatory sphere, with applications for registration with CIMA still in process at the date of this exercise. The Cayman Islands acknowledges that its understanding is likely to develop significantly as CIMA registers more VASPs and collects more data.

506. The risks relating to VASPs in the Cayman Islands has been assessed and represented in the following table.

Table 33: Summary of Overall Risk of VSAPs

<b>Risk Factor</b>	<b>Risk Score</b>
Nature, Scale and Complexity	Medium-High
Customers	Medium-High
Product, Service and Transaction	High

<sup>45</sup> The 2021 Cryptocrime Report’, by Chainalysis

<sup>46</sup> Bitcoin Market Journal, ‘How Many People Use Bitcoin in 2021?’, dated 23 November 2020 (using data from Bitinfo and Glassnode)

Delivery Channel Risks/Technology Related	Medium-High
<b>Overall</b>	<b>Medium-High</b>

*Nature, Scale and Complexity*

507. In the Cayman Islands, natural persons, legal persons, or legal arrangements may purchase, hold, or deal in VAs (sometimes referred to as ‘crypto currencies’ or ‘digital assets’) using individual wallets and keys. There is no accurate data on how many natural persons, legal persons or legal arrangements in the Cayman Islands hold VAs. VASP entities that have applied for registration with CIMA have indicated that they have 15,000 customers in the Cayman Islands (although this may not be 15,000 in total as VASPs often have the same customers and there may be some duplication), the vast majority of whom are individuals. Any known local level of usage may be relatively low when compared to global activity, given Cayman Islands’ small population size of 60,000 people.

508. There are no prohibitions on businesses accepting VAs as payment. However, the acceptance of VA as payment for goods or a service is likely to involve a VASP to process the transaction for the service provider or the conversion of the VA to and from fiat. At present, no service providers in the jurisdiction have confirmed that they would accept VAs as payment, but some service providers are exploring the possibility of accepting VAs as payment or are undertaking initial trials.

*VASP Numbers and Services Offered*

509. As of 15 April 2021, 20 VASPs had applied for registration with CIMA in the Cayman Islands. Although the number of the VASPs that applied for registration is relatively small, the volume and value of the funds they transact, and control are significant. At the time of application, registrants transacted \$5.1 billion in daily volume and held \$4.1 billion in customer assets. This volume appears to be unevenly distributed among the VASPs in the jurisdiction, with a small number of VASPs responsible for a majority of the total VA transaction volume taking place in or from within the Cayman Islands.

510. Table 33 below breaks down the types of applicants for registration under the Virtual Asset (Service Providers) Act, 2020 (the VASP Act).

Table 34: VASP Types in the Cayman Islands

VASP Type	Percentage
VA Trading Platforms	55%
Issuances	25%
Custodians	15%
Other	5%



511. CIMA has identified entities that potentially fall under the VASP Act but have not yet applied for registration. These have been identified from information at the Registrar of Companies, the SEZ, and open-source research. CIMA and other government agencies are taking steps to engage with these entities and enforce compliance.

512. **Virtual Asset Trading Platforms** - Virtual asset trading platforms (including exchanges) are gateways to buying and exchanging VAs. Trading platforms represent 55% of all VASPs that have applied for registration with CIMA and are the most common virtual asset service offered. The daily transaction volume of these trading platforms is approximately US\$5.1 billion.

513. Trading platforms perform certain functions that are similar in nature to banking activities (such as offering accounts and facilitating exchange between VAs), however, there are no Cayman Islands banking licensees that currently accept or exchange VAs. Additionally, of CIMA's existing licensees and registrants, none have indicated that they are operating a VA trading platform.

514. **Custodians** - Virtual asset custodians provide the service of safeguarding VAs and include firms that facilitate the custody of VAs directly for the public or as an intermediary for another service provider or VASP. There are also full-service virtual asset custodians who offer services beyond hosted wallets, such as audit, and transaction co-signing. Most of the virtual asset custodians who have applied to be registered with CIMA facilitate the exchange of virtual assets to/from other virtual assets or fiat currency. None of CIMA's existing licensees or registrants has notified CIMA that they are conducting the activity of a custodian.

515. **Issuances** - Issuances raise liquidity via the sale of newly created VAs, sometimes through a process commonly called an initial coin offering ("ICO"). Since 2019, the number of issuances in the Cayman Islands has declined significantly, which is in line with global trends for this activity. This decline can be attributed to many reasons, including, for example, 1) regulatory scrutiny of ICOs as a legitimate funding model; and 2) ICO adverts being banned from big tech platforms resulting in a stigma on ICOs. Open-source information suggests that between 14 October 2017 and 1 June 2019, 111 issuances took place from or within the Cayman Islands. The same sources suggest that 24 of these issuances raised \$730 million in fiat or equivalent during this period. These figures may be inaccurate as there is no audited information on these activities during that period. Due to the lack of regulation at the time, many issuances were likely done without performing due diligence on participants and VAs were also likely accepted as a form of payment.

516. A small number of entities that focus on the issuance of virtual assets have applied to be registered with CIMA. No existing licensees or registrants have notified CIMA that they are issuing virtual assets. However, the scale of this activity in the jurisdiction may be larger. CIMA has identified several entities that may be conducting issuances in the jurisdiction. Some of these entities have confirmed that they are no longer active; the rest have indicated that they either do not fall within the VASP Act or that they are in the process of making an application to CIMA. The assessment of these activities remains ongoing.

### *VASP Types of Legal Arrangements*

517. No VASPS identified themselves as exempted foundation companies, a structure that allows for the facilitation of decentralized governance through a legal entity without an ownership structure. It is a popular vehicle for virtual asset services in many other jurisdictions.

518. Of the VASPS applying to be registered by CIMA, none had a parent, affiliate or subsidiary in a high-risk jurisdiction. Only 5% had a parent, affiliate or subsidiary in a jurisdiction where VASPs are not regulated. The majority of applicants indicated they had a parent, affiliate or subsidiary in countries where VASPs are regulated.

519. Of the VASPs applying to be registered by CIMA, none indicated that they are operating in jurisdictions where they are unregulated.

### *Unregulated Activities Involving Virtual Assets*

520. There are a number of activities that are connected to VAs but do not fall under the VASP Act.

- **Decentralized Platforms** - No entities identified themselves as a decentralized platform. For an explanation of how these platforms operate, see “Products, Service and Transactions” below.
- **Peer to Peer Platforms** - No entities identified themselves as a peer-to-peer platform. For an explanation of how these platforms operate, see “Products, Service and Transactions” below.
- **Miners/Validators** - A blockchain miner is a node in the network that collects transactions and organizes them into blocks. A blockchain validator is responsible for verifying transactions on a blockchain. Once transactions are verified, they are added to the distributed ledger. Miners and validators are commonly excluded from any financial crime risk assessment as they provide ancillary services and/or products to a VA network. According to the information available, the jurisdiction has minimal exposure to miners and validators.
- **Fintech** - A fintech activity means an activity that involves the use of innovative technology to improve, change or enhance financial services. Fintech services are not virtual asset services, and they are generally not conducting RFB. Under these circumstances, they likely do not represent material ML/TF risks to the jurisdiction. For example, software developers developing blockchain technology would not be considered as a VASP as long as they are not engaged in any virtual asset services. A few entities in the jurisdiction are currently engaged in Fintech activities.

521. CIMA has not yet commenced its optional licensing regime for sandbox or fintech; the applications received from fintech service providers appear to be for venture-capital hybrid mechanisms for clients who wish to enter closed issuances.

### *Activities Using Digital Tokens which are not Virtual Assets*

522. Tokens where an individual cannot sell onward in a secondary market outside of the closed-loop system are excluded, such as airline miles, credit card awards, or similar loyalty program rewards or points. These activities do not facilitate or enable the transfer of value between persons and represent minimal ML/TF risk.

### *Virtual Asset Activities Regulated under other Acts*

523. The Cayman Islands regulates mutual funds and private funds through its Private Funds Act and Mutual Funds Act. Some funds are conducting activities using digital assets but are not subject to the VASP Act: see “Funds and other investment vehicles.” below

### *Nature, Scale and Complexity Conclusion*

524. A sizeable proportion of VASPs in the Cayman Islands are trading platforms with sizeable daily transactions. The scale and frequency of transactions expose trading platforms to high inherent risk from a ML perspective. However, VASPs are mostly not complex corporate structures, and instead are exempt companies with parents and subsidiaries in non-high-risk and regulated jurisdictions. The proportion of custodians is small relative to the whole sector, and they have fewer assets within their custody when compared to the very large transaction volume of exchanges. The proportion of issuances is also small relative to the whole sector and has contracted significantly in recent years. Entities conducting issuances likely exist, but open-source data suggests that this activity has waned considerably in the jurisdiction. Given the dominance of trading platforms in terms of materiality, scale and volume, the inherent risk relating to nature, scale and complexity is given an overall rating of **medium-high**.

### *Customer Risks*

525. The VASP customer data derives from the information reported to CIMA as part of the VASP registration process. The quality of these figures will depend on the adequacy of each VASP’s client onboarding and verification procedures. The Cayman Islands notes however that until recently there has been little standardization in the collection of client information, and therefore this data should be viewed with caution.

526. Similar to the deposit-taking institutions in the jurisdiction, the customer base served by VASPs is broad and includes HNWIs, non-HNWIs (with assets under \$800,000), legal persons (corporates and financial institutions), legal arrangements (trusts) and nominees. Approximately 95.708% of all VASPs customers are non-HNWI’s, with the remaining customers distributed as follows: 0.024% to HNWIs, 0.1244% to legal persons, 0.0123% to legal arrangements, 0.006% to Nominees, and 3.623% to Other. The data collected also indicates that of the total customer base, only 0.518% are from a high-risk country.

527. As previously stated, the overwhelming majority of customers appear to be unsophisticated non-HNWI. They are located across the globe, with the majority of them from a jurisdiction in Asia that regulate VASP activities (77%). A minor portion of the customers (0.2%) were from higher risk (unregulated) jurisdictions. The majority of

customers, (approximately 97%) are concentrated in a few select VASPs who operate a trading platform or provide VA exchange services (e.g., custodian), while approximately 3% participate in issuances, and approximately 1% in Other (e.g., fintech). Less than 1% are in high-risk countries.

528. Of the VASPs known to CIMA, all indicated that they offer cross-border services. The high volumes and multi-jurisdictional nature of business are particularly prevalent with trading platforms, but all VASPs offer services to clients in multiple jurisdictions.

### Customer Risks Conclusion

529. VASPs appear to have a high percentage of individual customers with a net worth of less than \$800,000, with only a small percentage of customers in high-risk jurisdictions. The majority of customers are also concentrated in virtual asset trading platforms, which represent a higher risk activity. Considering the individual customer risks associated with TF, and possible inconsistencies in due diligence performed by individual VASPs as well as the quality of the data, the customer risk rating for VASPs has been determined as **medium-high**.

### Product/Service Risks

530. The VASP sector is rapidly evolving. Given the complexity of the services offered, each has been separately risk-rated as per Table 35.

Table 35: Product, Service and Transaction Risks

VASP Type	VASP Sub-Type	Inherent Risk
Trading Platforms	Centralized exchanges	High
	Decentralized and peer to peer exchanges	High
	OTC brokers	High
	VA ATMs	High
Issuances	Issuances	Medium-High
	Public issuances	Medium-High
	Private issuances	Medium-Low
	Funds regulated under another law	Medium-Low
Custodians	Custodians	Medium-High
Service and Product Exchange	Centralized applications	Medium-Low

	Decentralized applications	<b>High</b>
Other	Fund administrators	<b>Medium High</b>
	Fund managers	<b>Medium-High</b>
	Miners or validators	<b>Low</b>

531. VASPs are often undertaking more than one activity, for example, exchange and custodian services, and so entities may fall into multiple categories.

#### *Virtual Asset Trading Platforms*

532. Virtual asset trading platforms are vulnerable to abuse by criminals seeking to obfuscate the source of illicit funds through the rapid exchange of funds from one virtual asset to another, and potentially back to fiat. By virtue of their trading activities, all known VASPs operate an exchange in the jurisdiction exchange between one or more forms of convertible VAs or exchange between VAs and fiat currencies and transfer VAs.

533. Approximately half of the VASPs that have applied for registration under CIMA provide transfer services. Typically, these entities operate online investment platforms for professional investors investing and syndicating into the equity and security tokens of financial technology companies akin to providing venture capital investment opportunities.

534. 55% of all VASPs seeking to register with CIMA are offering trading platform services, with significant daily transaction volumes. Given the high number of transactions and potential for rapid transfer from fiat to VA, the risks around these activities are assessed as **high**.

#### *Virtual Asset Issuances (including Stablecoin Issuers) and Other Fundraising Using Digital Tokens*

535. VAs have also been used to raise capital for a venture or project by the sale of newly created VAs to the public (more commonly called an “Initial Coin Offering”). If not adequately regulated, VAs may be created and sold directly to the public for value without supervision or adequate due diligence on participants. In this manner, issuances of VAs could be used to fund illicit projects, layer and integrate proceeds of crime, or move and transfer funds between anonymous parties. Criminals can also potentially invest illicit funds into VA, thereby creating a fake audit trail to show that their wealth derives from legitimate investments in the Cayman Islands.

536. There are mainly two types of issuances: public issuances and private issuances. *Public issuances* are a form of crowdfunding that targets the general public. This can be done by various methods, including for example through a project team, a centralized platform, or a decentralized platform. The purpose of issuing a digital token (whether coin, stable coin etc) is usually that the token may be digitally transferred or exchanged. As noted previously, many public issuances have taken place in or from within the Cayman Islands in the past. It is important to note, however, that most public issuances have KYC and/or CDD AML requirements. The fact that these issuances involve the public, and virtual assets which can be transferred or exchanged is indicative that they pose a higher risk. The risks associated with issuances are, therefore, assessed as medium-high.

537. *Private issuances* limit the number of investors that can participate in the process and are largely not advertised or open to the public. Investors are selected (and may include financial institutions and HNWIs) and the issuer may choose to set a minimum investment amount. In some circumstances, only accredited investors can participate in private issuances, allowing for these transactions to be exempt from being registered with any regulatory body. As a result, investors could be HNWI or UHNWIs and may not be known to the issuer and/or its advisers. While the private nature of these issuances increases the ML/TF/PF risk, most sales are very strict and often have a lock-up period before tokens are issued. Therefore, these activities have been assessed as medium-low.

538. Although the volume of issuances has reduced since 2019, and the risks associated with issuances vary significantly, there are still potential ML and TF risks, and therefore, issuances carry an inherent risk of **medium-high**.

#### *Virtual Asset Custodial Services*

539. Custodians are at risk of enabling criminals to store illicit funds through the provision of custodian services. The few VA custodians operating within the Cayman Islands are subject to the VASP Act and the AMLRs. Custodians are often closely connected with exchanges and trading platforms, and therefore the risks around these activities are assessed as **medium-high**.

#### *Service and Product Exchange*

##### *Peer to Peer Trading Platforms*

540. Peer to peer networks put users in direct contact with one another in order to transfer or exchange VAs. Meetings can be arranged using encrypted messaging, and control of a wallet can be physically handed over to the new owner in exchange for payment. Peer-to-peer exchanges are not commonly regarded as RFB given the proprietary nature of engagement.

541. Of the VASPs that have applied to be registered with CIMA, none have indicated that they offer peer-to-peer services. However, given the lack of a central platform with oversight, the risks around these activities are assessed as high.

### *Over the Counter (OTC) Brokers*

542. OTC brokers facilitate trades between individual buyers and sellers who cannot (or do not want) to transact on an open exchange. OTC brokers are typically associated with an exchange but operate independently. Based on the applications received by CIMA, there is some exposure to OTC within the Cayman Islands. Given the role of OTC brokers in adding to the complexity of VA and fiat exchanges, and the high volume of trading, the risks around these activities are assessed as high.

### *Virtual Asset Automated Teller Machines (“VA ATMs”)*

543. VA ATMs allow persons to deposit and withdraw VAs into fiat and vice versa. Although there are no VA ATMs in the jurisdiction, the anonymity associated with such transactions makes the inherent risk of these activities high.

### *Decentralized Finance Services (“DFS”)*

544. DFS refers to a system by which software written on blockchains makes it possible for buyers, sellers, lenders, and borrowers to interact peer to peer or with a strictly software-based middleman rather than a company or institution facilitating a transaction. DFS are highly vulnerable to facilitating fraud and money laundering: several media reports suggest that half of all virtual asset related thefts in 2020, totalling \$129 million, were DFS related. DFS protocols are permissionless by design, with no central controller, meaning they often lack regulatory oversight and anyone in any country can access them with little or no requirement for CDD or verification. They may rely on unaudited smart contracts and there may be no way of freezing funds with decentralized governance and control.

545. Decentralized trading platforms provide pseudonymous processing of transactions and complete control of assets by the users. They value the privacy and security of users and offer token swapping facilities and use an order book or a liquidity aggregator for trading.

546. Of the VASPs that have applied to be registered with CIMA, none have indicated that they offer decentralized services, including as a trading platform. However, there is some evidence that VASPs may have decentralized finance entities as customers. Given the relative anonymity and lack of centralized governance, the risks around these activities are assessed as **high**.

### *Other Products and Services (including F0unds and other Investment Vehicles )*

547. The Cayman Islands regulates mutual funds and private funds through its Private Funds Act and Mutual Funds Act. CIMA has approximately 24,000 registered funds within its remit, all subject to the AMLRs. Some funds are conducting activities using digital assets but are not subject to the VASP Act. Instead, they are supervised for AML/CFT under different regulatory regimes.

- **Funds Issuing Digital Tokens:** Funds may choose to issue digital tokens as a representation of value, or ‘equity’. This may fall into the definition of ‘issuance’ under the VASP Act. Relevant factors include the nature of the fund instrument, the contractual terms of membership and the rules around issuance, and the ability of the

members to exchange those tokens with the public for value. Of the 24,000 funds that CIMA regulates, approximately 200 currently issue digital tokens (although this is growing all the time) Given the scale and nature of the activity, the risks around these activities are assessed as medium-low.

- **Funds Trading and Investing in VAs:** Funds may choose to trade or invest in VAs, using a fund administrator and/or an investment manager. The jurisdiction is aware of a small population of funds (relative to the total number of funds present) which have some investments in VAs, but this trend is likely to grow as VAs become more acceptable to institutional investors. The risks around these activities are assessed as medium-low.
- **Fund Administrators and Managers:** If a fund administrator is only administering funds that have invested in VAs, then it is unlikely that the fund administrator is considered as conducting relevant VA business under the VASP Act. The fund administrator would be licensed as a Mutual Fund Administrator and subject to the AMLRs. Equally, if an investment manager manages a fund that could be invested in VAs but is not conducting any virtual asset service business as defined under the VASP Act, it is unlikely to be required to register as VASP but will be regulated as an investment manager and subject to the AMLRs. The number of fund administrators who administer funds with VAs is small relative to the size of the sector. The risks around these activities are assessed as medium-high.
- **Miners and Validators:** Evidence suggests mining and the operation of validator nodes are not a substantial financial activity in the jurisdiction. This is corroborated by the relatively high cost of electricity and computer services locally. Further, miners and validators appear to operate on their behalf when transacting in virtual assets. Because miners and validators perform a support role in the maintenance of blockchain technology, and because this activity does not tend to involve the provision of financial services, the risk posed by these activities are assessed as low.

#### *Products, Transactions and Services Conclusion*

548. The vast majority of VASPs in the Cayman Islands are trading platforms that are at high inherent risk of facilitating ML/TF/PF. There are currently no entities in the Cayman Islands conducting the highest risk activities (such as decentralized finance and peer to peer lending) but this sector is evolving very fast. Therefore, the inherent risk in relation to products, transactions and services has been determined as **high**.

#### *STRs and Law Enforcement Response to VA/VASP Abuse to Date*

549. A review of SARs received between 2018 and 2020 revealed that fraud, in particular Ponzi or pyramid schemes, was the suspected criminal activity in 88% of SARs filed in relation to VAs or VASPs.

550. The FRA received no SARs filed in relation to VAs or VASPs in 2017. For 2018 to 2020, the FRA received 16 SARs filed in relation to VAs or VASPs, two-thirds of which were filed by SIB RPs, some by CSPs and a small number by funds, law firms and TSPs.



551. Of the SARs filed by SIB-RPs, the majority of cases involved assets approximating US\$914,000.00 as part of a fraud (Ponzi scheme) allegedly involving US\$722 million. A SAR filed by an investment fund involved fraudulent transactions and a data breach approximating US\$4 million. The SARs filed by CSPs along with the SAR filed by an investment fund was a case of fraud amounting to over US\$300,000.00 and a redemption request (not paid) in the amount of 5 million Euros. A SAR filed by a law firm did not mention a dollar value but was filed as a result of activity involving a fraud (Ponzi scheme). A SAR filed by a Trust company involved suspicious transactions equivalent to BTC 37.09. Disclosures were made to relevant agencies as appropriate.

552. The Digital Forensic Hub, a cybercrime investigative hub, has responsibility for investigating cybercrimes, including those relating to VAs.

#### *International Cooperation on VA/VASPs*

553. The FRA received no requests for information (direct international cooperation requests) relating to VA or VASPs in 2017. However, between 2017 to 2020, CIBFI received 2 LEA requests connected to an entity conducting virtual asset services activity. These ultimately resulted in formal mutual legal assistance requests to the ODPP, leading to the successful restraint of 6 wallets. These restraints remain in place and the investigations continue. A further 8 mutual legal assistance requests were received in 2020 connected to VASPs, requesting restraints and/or production orders. These requests were in connection with money laundering, drug trafficking, fraud and blackmail offences.

### **II.3. ML Mitigating Measures**

554. The Cayman Islands has established an effective AML/CFT regime based on a strong legal framework and a comprehensive institutional set-up involving a wide range of competent authorities to prevent, supervise, detect, investigate, and prosecute ML and TF, and to recover assets. The AML regime has been revamped to effectively deal with existing and emerging threats. Areas that have recently been strengthened include the legislative framework, domestic cooperation and coordination, beneficial ownership, tax transparency, financial intelligence, investigations and prosecution, confiscation, licensing and registration and Risk-based supervision. These constitute key pillars of Cayman Islands' national mitigation measures and apply to all sectors.

555. In addition to these overarching mitigating measures, sector-specific controls have also been added for each sector. The analysis in this section follows this approach, by first analysing the core components of Cayman Islands' AML framework as a whole, and secondly by then elaborating on the additional, sector-specific measures that are in place. The analysis also outlined where certain parts of the sector may not yet be sufficiently covered by the mitigating measures. The rating scale used for mitigating measures is arranged by strong/good/satisfactory/poor controls.

556. In conclusion, the overarching risk-mitigating measures for the Cayman Islands are considered to be good, and the individual and additional controls in the various financial and non-financial sectors are evaluated as summarized in the below table:

Table 36: Overarching Risk Mitigating Measures

Sector	Overarching Controls	Additional Sector-Specific Controls
TCSPs	Good	Good
Banks		Good
Securities Sector		Good
Investment Sector		Good
Insurance Sector		Good
MSBs		Good
Real Estate		Good
Precious Metals and Stones		Good
Lawyers		Good
Accountants		Good
Other FIs		N/A
VASPs		Satisfactory

557. In sum, the risk-mitigating measures in place are good for all sectors and satisfactory for VASPs, given that the full licensing regime has yet to commence.

*II.3.a. Overarching AML Risk-Mitigating Measures Applicable to All Sectors*

*Legislative Framework*

558. The Cayman Islands’ legislative framework for AML Risk mitigation is robust, as evidenced by its CFATF 2<sup>nd</sup> and 3<sup>rd</sup> Follow-up & Technical Compliance Re-Rating Reports of February and October 2021. The jurisdiction has attained ratings of “Compliant” (C) or “Largely Compliant” (LC) in all of the FATF 40 Recommendations.

559. Money Laundering is criminalised based on the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) and the United Nations Convention against Transnational Organized Crimes (Palermo Convention) through sections 133 and 135 of the Proceeds of Crime Act (POCA). Section 144 of the POCA defines ML in relation to criminal property that is either derived from criminal conduct which a) is an offence in the Cayman Islands, or b) would constitute an offence had it occurred in the Cayman Islands. As there is no direct taxation in the jurisdiction, tax offences are criminalised through section 247(A) of the Penal Code (2019 Revision).

560. The Cayman Islands applies an “all crimes” approach to ML rather than a threshold approach, and the ML offence extends to any type of property. In accordance

with section 144(4) of POCA, it is immaterial who carried out the criminal conduct or who benefited from it. Penalties for ML offences committed include, on indictment imprisonment for a term of fourteen years or a fine, or both. Preventative measures, particularly those found in Recommendations 10 to 23, are incorporated in the AMLRs.

### *Understanding of Risks*

561. Targeted risk assessments were completed during 2020, through collaboration amongst IACC members, the National Coordination Team and with the support of an international firm of consultants. These included assessments on 1) Legal Persons and Arrangements; 2) Terrorism Financing; 3) International Components of Risks Faced by the Jurisdiction as an International Financial Centre; 4) SIBL EPs (as they were then). CIMA also conducted sectoral risk Assessments for banking, MSBs, Securities Investment Business licensees, mutual fund administrators, insurance and TCSPs. The PIAG also produced a PF Threat Assessment in May 2020.

562. Assessments were followed up by coordinated outreach and the publishing of risk assessments on relevant websites, including the supervisors' and that of the AMLU. These efforts combined have resulted in an increased risk awareness both at the private and public sector levels over the last two years.

563. The AML/CFT Strategy for 2019-2022 was updated in September of 2019 giving specific actions to be taken under six strategic themes<sup>47</sup>. These were supplemented by action plans with target dates. An ML/TF/PF Trends and Typologies document was developed by the IACC and was published in September 2019.

### *Beneficial Ownership*

564. Changes were also introduced with regards to the measures in place to warrant corporate transparency. In 2017, the beneficial ownership reporting framework was introduced in the Cayman Islands to encompass the Companies Act, the Limited Liability Companies Act and the Limited Liability Partnership Act. All companies registered or incorporated in the Cayman Islands are required to provide details of their beneficial owners, except for certain companies that are exempted due to beneficial ownership information being held elsewhere (e.g., entities regulated by CIMA, or entities listed on a stock exchange). A beneficial owner (BO) for purposes of the framework is an individual who holds directly or indirectly 25% or more of the shares or voting rights in a company, or the right to appoint or remove the majority of the board of directors of a company. In practice, the legislative changes have already resulted in a significant improvement in the availability of up-to-date and accurate BO information in 2020. In October 2019, the Cayman Islands Government committed to introducing public registers of beneficial ownership information for legal entities in anticipation of it becoming the global standard in 2023. Since then, work has progressed toward refining and improving the relevant legislation. As of October 2021, there are a total of five persons in the General Registry dedicated to BO compliance. The recruitment exercise for three additional

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47 (1) Enhancing the Jurisdiction's AML/CFT/CPF Legal & Regulatory Framework; (2) Implementing a Comprehensive Risk-Based Supervisory Framework; (3) Strengthening of Sanctions, Intelligence, Investigation, Enforcement & Asset Recovery; (4) Enhancing Domestic Co-operation and Co-ordination; (5) Ensuring an Efficient & Effective System for International Co-operation; and (6) Raising AML/CFT/CPF Awareness amongst all Stakeholders & the General Public.

Compliance Officers is ongoing. Enforcement of BO requirements for legal persons and legal arrangements also occurs through CIMA's supervision of TCSPs.

### *Tax Transparency*

565. The Cayman Islands has implemented all relevant international standards for the exchange of information in tax matters. These currently include the exchange of information on request (EOIR), the US Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS), Country by Country Reporting (CbCR) and the substantial activities factor for no or nominal tax jurisdictions (Economic Substance).

566. The Cayman Islands has engaged in the automatic exchange of information with the IRS since 2015 regarding US persons' financial accounts in Cayman financial institutions. This is made pursuant to the Cayman Islands Model 1A Intergovernmental Agreement with the US regarding FATCA.

567. The Cayman Islands was rated as "largely compliant" overall in the *OECD Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Review Report: the Cayman Islands 2017 (Second Round) Peer Review Report on the Exchange of Information on Request*, which was the same overall rating that it received in the Global Forum's Phase 2 Review in 2013. The Tax Information Authority Act (2021 Revision) empowers the Cayman Islands to engage with EOIR pursuant to the Convention on Mutual Administrative Assistance in Tax Matters (which has over 140 participating jurisdictions), and also pursuant to scheduled bilateral agreements with 34 countries. The Global Forum has also determined that the Cayman Islands legal framework was in place regarding the CRS. The Cayman Islands has engaged in AEOI regarding the CRS since 2017. In 2020, the Tax Information Authority (the TIA) transmitted CRS information to 64 receiving jurisdictions regarding their taxpayers' financial accounts with Cayman financial institutions. The Global Forum was assessing participating jurisdictions' effective implementation of the CRS, and the first results are expected in 2022.

568. The Cayman Islands is a member of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) which is the body responsible for Country-by-Country Reporting (CbCR) and Economic Substance under BEPS Action Plans 13 and 5, respectively. In 2018, the Inclusive Framework determined that the Cayman Islands had a domestic legal and administrative framework to impose and enforce Country-by-Country (CbC) requirements on Multinational Enterprises (MNEs) whose Ultimate Parent Entities were resident for tax purposes in the Cayman Islands. The Inclusive Framework's Peer Review also stated the Cayman Islands met the terms of reference regarding the exchange of information framework which was still evolving at that time. The Cayman Islands commenced AEOI with CbCR participating jurisdictions in 2017 and the TIA made CbC transmissions to 46 jurisdictions in 2020.

569. The Forum on Harmful Tax Practices (FHTP) is responsible for BEPS Action 5. The FHTP concluded in 2019 that the Cayman Islands legislative framework was not harmful and was in line with the substantial activities' requirements. The International Tax Cooperation (Economic Substance) Act (2021 Revision) ("ES Act") imposes these requirements in the Cayman Islands. The ES Act originally applied to Cayman Islands

companies and limited liability companies, limited liability partnerships, and companies incorporated outside the Islands and registered under the Companies Act. In June 2021, the scope was expanded to include all forms of general partnerships, limited partnerships, ELP and foreign partnerships. This means that all types of companies and partnerships registered with the General Registry as well as unregistered general partnerships now have annual notification obligations to the TIA regarding their classification under the ES Act. Relevant entities conducting relevant activities must satisfy the applicable economic substance test and comply with their reporting obligations in respect thereof.

570. The Cayman Islands has implemented all relevant international standards for the exchange of information in tax matters. The OECD's Global Forum has rated the Cayman Islands as "largely compliant" regarding EOIR. TIA has been exchanging information with other competent authorities under FATCA, the CRS, CbCR, and Substantial Activities in No or Only Nominal Tax Jurisdictions (NTJs) since inception. The Global Forum is currently reviewing all jurisdictions' effective implementation of the CRS and, likewise, the OECD/G20 BEPS Inclusive Framework is reviewing NTJs' implementation of the substantial activities standard.

#### *Financial Intelligence*

571. The STR framework in the Cayman Islands continues to increase in relevance and effectiveness. The FRA received: 1,021 cases (including 850 SARs from 252 reporting entities) in 2020; a record 1,138 cases (including 985 SARs from 264 reporting entities) in 2019 compared to 935 cases (including 788 SARs from 177 reporting entities) in 2018. The increase in SARs filing over the 2018-2020 period is likely due to widened supervisory coverage, increased outreach through the Stakeholder Forum events, and heightened awareness in relation to SAR filing. During the same period, the FRA made a total of 156 domestic disclosures to law enforcement. The FRA was able to disseminate its disclosures on average within 35 calendar days of receipt of a SAR, with a greater proportion being made within 14 calendar days, such as those relating to TF and other areas of high priority.

572. As of December 2020, a total of 239 disclosures had been disseminated electronically to the Police via CRIMSON, the shared access case management and intelligence system. Each new disclosure contributed to the collective knowledge of the participating agencies and added to the central pool of intelligence from which new trends, risks and threats were discerned. The quality of FRA disclosures improved since the MER, with the analysis being more fulsome and generating more proactive investigations that were in line with the risk profile of the Cayman Islands as an IFC.

573. Many of the SARs analysed involved foreign subjects with overseas connections and associations, where it was necessary to seek cooperation and assistance from overseas FIUs. Where overseas FIU enquiries were necessary, these were made as early as possible in the process. The number of proactive requests and spontaneous disclosures made to overseas FIUs by the FRA has increased over the last two years. The establishment of strong relationships with overseas FIUs brought with it effective and timely sharing of information and intelligence.

### *Investigations and Prosecutions*

574. At the time of the 4th Round MER, there were no cross-border ML or TF investigations. However, an Interim Proactive Taskforce (IPT) was established in April 2019 to pursue a greater variety of ML cases in line with the risk profile of the jurisdiction and was later reconstituted as the CIBFI in March 2020. Domestic ML remained with the Financial Crimes Investigation Unit (FCIU) and other agencies such as the ACC. The IPT/CIBFI developed a Proactive AML Strategy that included: 1) the initial recognition and subsequent establishment of a dedicated and properly resourced unit to address the deficiencies coming out of the MER; 2) the high-level commitment of funding for the CIBFI as evidenced by the recruitment of highly trained specialist financial investigators; 3) the quality and type of money laundering investigations that are undertaken when set against overall economic activity in an IFC.

575. ML investigations increased steadily from 11 in 2017 to 26 in 2018 and 48 in 2019. In 2020, there were 50 investigations. The investigation of ML with foreign predicate offences included 13 with predicates of tax evasion and 7 for corruption. Overall, there was a greater variety of ML cases pursued, including stand-alone and third-party against both natural and legal persons. Most cases related to stand-alone ML, demonstrate a shift from the time of the MER.

576. While there were no ML convictions in 2017, there were 8 in 2018 and 11 in 2019. In 2020, there were no ML convictions. It should be noted that jury trials were suspended for much of this period because of the challenges posed by the COVID-19 pandemic. There was one significant case prosecuted in the Cayman Islands as a stand-alone ML case involving gold worth \$4 million. The defendants were eventually acquitted, however, the judge's ruling in relation to the submission of no case to answer clearly established that the prosecution was not required to prove the nature of the predicate offence in stand-alone ML cases. The Cayman Islands enhanced its efforts in completing complex ML cases and advancing them to prosecution and conviction.

577. As of December 2020, CIBFI had a staff complement of 11. There is early engagement with the ODPP as each case is assigned to a Crown Counsel. CBC had a staff complement of 10 within its Financial Intelligence Unit with the capacity to collect statistics, develop intelligence, and conduct investigations. Significant capacity has been built around the cross-border movement of cash and BNIs. The ACC had one senior investigator, five investigators, and one trainee investigator. These postholders have extensive experience in the investigation of corruption, and one postholder held the designation of Certified Financial Investigator. The ACC has also recruited an Investigative Analyst with responsibility for tracing the proceeds of corruption, as well as domestic cooperation and coordination.

578. CIBFI proactively made formal requests through the ODPP for information to international partners. Outgoing MLAT requests rose steadily from 2 outgoing requests in 2017 to 7 in 2019 and 9 in 2020. Conversely, where legal and appropriate, Cayman Islands authorities acceded to incoming MLAT requests from international partners, on each occasion considering whether a domestic investigation could be pursued on the island.

579. Other LEAs have also strengthened human and technical resources in recent years. Staffing at CBC stood at 225 at the time of the merger between Immigration and Customs departments in February 2019. Three members were recruited to deal specifically with AML/CFT compliance, which increased the CBC Financial Intelligence Unit to 10. This was followed by the recruitment of an Investigative Analyst and a Statistician in December 2019, and another Compliance Officer in September 2020. CBC has also deployed X-ray scanning technology, both fixed and mobile, and has bolstered the Canine Unit to detect cash and drugs.

580. The ODPP had six trained Crown Counsel with specialised training and relevant experience in financial crimes. There were three lawyers dedicated to financial crimes, while an additional three provided advice and representation on financial crimes. Virtual training in complex financial crimes and asset recovery was provided in August 2020 to 12 counsels from the ODPP, 6 staff from the CIBFI and 2 ACC investigators.

### *Confiscation*

581. Between 2018 and 2020, the ODPP made 6 applications for the confiscation of assets following conviction. In respect to these 6 applications, the defendants were found to have benefited from their criminal conduct by US\$10 million. The total realizable assets were the subjects of the confiscation orders.

582. Since 2019, the ODPP has made 9 successful applications for restraint orders relating to CIBFI investigations. The value of the assets restrained exceeded US\$520 million.

583. Law enforcement agencies and the ODPP deployed human and other resources proactively in order to achieve these tangible results. There were also several training sessions held in which LEAs, ODPP, and the judiciary participated. These included the following: a workshop for judges and prosecutors held in Georgetown, Guyana; a two-day CFATF workshop in September 2019 on Domestic and International Asset Recovery; a one-day TF training session for the judiciary that took place virtually; and an analytical investigative technique training, hosted by the ACC in May 2019.

584. A lot of activity has taken place to restrain and stop the dissipation of proceeds and crime. CIBFI has made significant inroads in an investigation involving US\$214 million in collaboration with domestic and international partners.

### *Supervision - Licensing/Registration*

585. The Cayman Islands licensing, and registration regimes have been enhanced with the objective of creating controls at the entry point. This has effectively prevented criminals and their associates from holding or being beneficial owners of a significant or controlling stake or holding a management function in financial institutions, DNFBPs or VASPs. previously SIB 'excluded persons' are now regulated as registered persons and VASPs are required to be registered. DPMS and real estate businesses are registered, as are law firms, accounting firms and practitioners.

### *Supervision – Risk-Based Approach*

586. Each of the supervisory authorities has implemented a risk-based approach when determining the frequency and intensity of onsite and offsite AML/CFT/CPF inspections. One of the main innovations in this regard is the collection and analysis of extensive inherent risk data from licensees in most sectors. The risk scores generated from this analysis are used to inform the adequate intensity and frequency of any supervisory engagement.

587. The risk-based approach also considers the mitigation measures associated with regulated entities (or groups), and the inherent ML/TF/PF risks identified in the country's NRAs, as well as the results of sectoral risk assessments.

588. The number of inspections and thematic reviews conducted across all the sectors has increased since the 2015 MER. A key component of the inspections is the communication of trends or areas of focus by the designated supervisor for each sector. In addition, specific remedial actions arising from the inspections or thematic reviews are followed up with the respective supervised entities.

589. The adoption of a risk-based supervision and monitoring framework across all supervised entities is a very significant step forward. The frequency and intensity of onsite and offsite AML/CFT/CPF inspections have increased. Deploying a comprehensive risk-based approach has made it possible to correctly calibrate and understand inherent risks in the sectors and regulated entities, risk rate, entities and dedicate the resources to higher risk entities. This approach has been the most significant mitigant adopted.

### *Outreach and Communication*

590. At the national level, a subcommittee of the AMLSG is responsible for ensuring that ongoing regular outreach is provided to regulated sectors on national AML/CFT developments, including on any risk assessments conducted at the national level. Individually, supervisors have developed and implemented policies on conducting outreach to their regulated entities, including posting relevant training videos and risk assessments on their respective websites. In addition, targeted risk assessments have been disseminated to the private sector and posted on websites. The full 2015 NRA was shared with supervisors who conducted outreach to their regulated entities.

591. In February 2020, the Cayman Islands launched a free online training platform that provides lessons, presentations and other information on risks and the regulatory framework in general. Information on risk assessments, including risks of legal persons, the TF risk assessment, and the NRA is hosted on the platform. There are presentations/information on SAR reporting, the role of the MLRO, ML typologies and case studies, as well as a summary of the FRA's Strategic Analysis Report on the Laundering of the Proceeds of Corruption. Sector-specific presentation such as the FRA presentation on SAR filing obligations and filing high-quality SARs directed at banks with no physical presence is also posted on the e-Learning Platform.

592. In addition to outreach to the regulated sectors, the Cayman Islands has been educating the wider public on ML/TF/PF risks. The Islands implemented a public campaign under the theme "It's Everybody's Business," to inform the public, through



various media outlets, about AML/CFT/CPF developments throughout the regime. The AMLU website has been amended to provide more information for the public and a press release accompanied the launch of the new website. Over 40 media releases have been issued to keep the public apprised of AML/CFT/CPF initiatives.

593. Since 2018, specific outreach has been carried out for TFS. In addition to the issuance of guidance, agencies in the Cayman Islands have conducted several outreach sessions to the regulated industry to help ensure relevant entities are aware of their freezing and reporting obligations relating to TFS. In the second half of 2019, all supervisors updated their websites to ensure there is sufficient information regarding TFS that is easily visible and accessible to website visitors and/or subscribers.

#### *Private Sector Awareness and Compliance*

594. In July 2019, with the assistance of the UK HM Treasury, an outreach session was conducted in conjunction with NC, FRA, CIMA, CILPA and CIIPA, and attended by representatives from approximately 165 FIs and TCSPs. Topics covered in the outreach included effective implementation of TF and PF obligations. The post-event survey indicated that three months following the event, 8 attendees had applied learnings from the workshop to their day-to-day responsibilities, 6 entities had reviewed their approach to sanctions screening with a further 2 respondents indicating they are planning on doing so. Similarly, 5 updated their policies and procedures and 3 respondents said they planned on doing so. 9 respondents stated they used the contents of the workshop to educate others in their organization.

595. Each of the supervisors has a range of tools to assess the impact of its supervisory actions on the entities under its remit. These include, for example, increased frequency of onsite, offsite and follow up inspections, tracking of entities on high-risk lists, thematic reviews, industry response to guidance issued and outreach conducted, and entities' response to new regulatory measures such as the implementation of administrative fines and AML/CFT reporting obligations.

#### **Conclusion on Strength of Sector-Overarching Controls and Associated Rating**

596. The sector-overarching controls and risk mitigation measures in place in the Cayman Islands are good (with VASPs rated satisfactory) and encompass all elements of a fully effective AML/CFT framework. Given that some of the measures have only been in place for a few months, the strengths of these measures further increase over time, and their continuous application will result in even more enhanced effectiveness. The design and commencement of the implementation of the new and strengthened system is mostly completed.

#### *II.3.b. Sector-Specific AML Risk Mitigating Measures*

##### *Sectors Supervised by CIMA*

597. CIMA is the integrated supervisor for financial services in the Cayman Islands. Financial institutions (FIs) that fall under CIMA's supervision are banks, building

societies, MSBs, credit unions, MFAs, SIB licensees and RPs, investment and private funds, and insurance institutions. Additionally, CIMA supervises TCSPs and VASPs

598. Each sector is licensed and supervised by CIMA in accordance with the AMLRs and applicable regulatory laws, including the MAA (. CIMA is both a prudential and AML/CFT regulator. Sanctions (including enforcement actions) for breaches of AML/CFT are made through both the AMLRs and the operation of CIMA's regulatory acts.

599. CIMA performs registrations and/or licensing as appropriate across FIs and TCSPs. The controls are applied at the time of initial licensing or registration, and on an ongoing basis. Continued compliance with licensing and registration requirements is monitored as part of onsite and/or offsite inspections. There are also reporting obligations for all licensees or registrants with regards to any changes in fitness and propriety ("F&P") responses provided to the supervisors. CIMA conducts F&P assessments on all beneficial owners of applicants and on an ongoing basis. As part of the F&P assessment, all beneficial owners are required to submit a personal questionnaire, which includes questions relating to their prior regulatory and criminal conduct. All shareholder and BO details are scrubbed in a screening database, the results of which are reviewed to ensure that no adverse current, past or pending criminal investigations, convictions, civil suits, or offences are found in relation to such persons. Where a person's response raises regulatory or other concerns, additional investigations are conducted to determine whether the respondent will still be considered fit and proper to act as a director, shareholder, beneficial owner or officer.

600. Additionally, CIMA maintaining a register of all licensees and registrants ensures that no entities and/or persons are carrying out RFB without the requisite registration and/or licencing. CIMA uses the Regulatory Enhanced Electronic Forms Submission (REEFS) to effectively monitor the process. The registration/licensing process in REEFS tracks all the applications through every stage making the process efficient.

601. CIMA takes a risk-based approach in determining the frequency and intensity of on-site and off-site AML/CFT supervision. In doing so, CIMA takes into consideration the identified ML/TF risks and mitigation measures associated with regulated entities (or groups) as well as the ML/TF risks identified through national risk assessments and sectoral risk assessments conducted by CIMA. This strategy takes account of the characteristics of all entities within CIMA's remit, and in particular, has regard for the number and diversity of these entities and the degree of discretion afforded to them under the risk-based approach. For example, in devising the 2020 AML/CFT on-site inspection plan, CIMA took into consideration various ML/TF risk factors to ensure heightened supervisory attention was applied where risks were higher. The factors include:

- The inherent ML/TF risks identified by the country through national risk assessments
- The inherent ML/TF risks identified by CIMA through sectoral risk assessments
- The identified ML/TF risks and mitigation measures associated with regulated entities (or groups)
- The nature and intensity of the AML/CFT deficiencies identified in a regulated entity during off-site monitoring or the previous onsite inspection.

- Onward disclosures from the FRA
- Information received through AML/CFT reporting such as high/ unusual frequency, amounts, origin or destination of cash flows
- Information received from other regulatory authorities
- Adverse media
- The timing of the last inspection
- Regulated entities with ongoing or potential non-compliant issues
- Complaints received against regulated entities
- Self-disclosure by a regulated entity of weak compliance systems

602. CIMA has designed and implemented bespoke technology (STRIX) for a data-led risk assessment of ML/TF risk in all supervised sectors. STRIX provides an overall risk rating that determines the supervisory intensity for each of the licensees and can be adjusted following onsite or offsite inspections or changes in the risk profile

603. Approximately 90% of inspections result in deficiency findings by CIMA. Under these circumstances, licensees/registrants will be issued with requirements to remediate deficiencies. CIMA acts where entities fail to remediate within prescribed timelines. High-risk entities or entities with significant deficiencies are closely monitored by CIMA and escalated to enforcement where appropriate and proportionate.

604. Where a licensee/registrant has contravened regulatory acts or the AMLRs, CIMA can use a range of enforcement powers, including a power to impose administrative fines under the MAA and the AMLRs. CIMA's powers to impose sanctions through enforcement actions for breaches of AML/CFT (other than administrative fines) are through the operation of its regulatory laws. These sanctions can range from the removal of directors to suspension and revocation/cancellation of a licence or registration, to appointment of a Controller and winding up of companies under the regulatory acts and the Companies Act. CIMA has taken several actions in relation to the sectors it supervises, as detailed below.

605. CIMA continues its commitment to raise AML/CFT compliance awareness and standards through outreach activities. CIMA has published several training videos, advisories, notices, circulars, and newsletters covering a wide range of topics aimed at assisting regulated entities to better understand and meet their AML/CFT compliance obligations. In December 2020, a survey was taken of regulated entities who had received training from CIMA within the previous 18 months. Of the respondents, 92.62% replied that this had helped them better understand the relevant AML/CFT risks and the Authority's expectations as to how to comply with the AML/CFT/CPF and sanctions framework of the Cayman Islands.

606. CIMA has also commenced the automatic dissemination of email Notices to registrants/licensees of persons or entities designated under the international financial sanctions regime, based on the Consolidated List maintained by the Office of Financial Sanctions Implementation in the United Kingdom ("OFSI"). These Notices are disseminated to over 17,000 email addresses of regulated entities/persons and form a continued part of CIMA's outreach efforts to promote compliance with TFS obligations. Regulated entities may also now self-update contact details through CIMA's REEFS.

607. With regards to internal capacity development, CIMA has expanded the number of staff with AML/CFT expertise and is providing greater levels of training on various aspects of AML/CFT supervision to staff members across all levels through conferences, online, and in-person training.

#### *Deposit-Taking Institutions and MSBs*

608. Deposit-taking institutions in the Cayman Islands are licensed and regulated by CIMA in accordance with the BTCA and the Cooperative Societies Act. Money service businesses (MSBs) are regulated under the Money Services Act. All deposit-taking institutions and MSBs are subject to the obligations of the AMLRs. Persons who operate without the relevant license commit an offence and are liable on conviction to a fine of ten thousand dollars. Under the Banks and Trust Companies (Licence Applications and Fees) Regulations (2021 Revision), regulation 6 sets out the fees payable after the first grant of a licence, one of which is CI\$100,000 for a Class B Bank with assets of more than US\$5.0 billion (see regulation 6(g)(v)).

609. CIMA takes a risk-based approach to its supervision of deposit-taking institutions. Following the Banking and Money Service Businesses Sectoral Risk Assessments of 2020, CIMA focused its supervisory attention on areas identified as higher risk, for example, Class B Banks. As a result, CIMA allocated 20% of its AML/CFT supervisory staff to deposit-taking institutions.

610. CIMA further uses regular inherent risk data reporting by licensees, such as data on cash flow activity, to identify outliers/unusual transactions and report on trends and themes. For MSBs, CIMA collects quarterly information on transactions over US\$3,500. Additionally, under the Anti-Money Laundering (Money Services Business Threshold Reporting) Regulations, 2020, the FRA collects information from MSBs on transactions over US\$3,500.

611. In 2020, CIMA issued 187 requirements to deposit-taking institutions. It also found three (3) directors not fit and proper, issued two (2) license revocations/cancellations and two (2) warning notices and levied a KY\$100,000 administrative fine against a Category A bank for non-compliance with the AMLRs.

612. CIMA also conducts targeted outreach to the banking sector and maintains regular dialogue with the Cayman Islands Banking Association and other key stakeholders such as overseas correspondent banks.

**613. In sum, the mitigating measures in place for the deposit-taking institutions and MSBs are good.**

#### *Securities Sector*

614. All persons carrying on SIB are now required (pursuant to the recent amendment to Sec. 5 of the SIB Act) to be regulated by CIMA, either through registration or licensing, in order to conduct securities business in or from within the Islands. RPs are therefore subject to the same supervisory oversight by CIMA as SIB licensees. Persons who carry on SIB without a licence or registration commit an offence and are liable on summary conviction to a fine of one hundred thousand dollars and imprisonment for one year, and

in the case of a continuing offence, to a fine of ten thousand dollars for each day during which the offence continues pursuant to section 5(6) of the Securities Investment Business Act (2020 Revision).

615. Where SIBL EPs failed to apply for re-registration, file a new application or did not confirm the cessation of their business and formally deregister within the prescribed timeframe, CIMA de-registered them and published the names of these entities on its website. CIMA has also issued letters of direction for information to previously defined SIB EPs that are not re-registered as RPs to ensure they are no longer undertaking SIB activities.

616. Rigorous F&P checks were performed when registering SIB RPs. 173 applications were refused, seven of which were due to at least one of the applicant's ultimate beneficial owners, shareholders, directors, and senior officers being the subject of adverse information that was not acceptable to CIMA.

617. Noting the SIB EP risk assessment risk-rating the sector as medium-high, CIMA allocated 30% of its AML/CFT supervisory staff to the supervision of this sector and completed risk-based inspections for the highest risk RPs to evaluate their AML/CFT policies, procedures, systems, and controls. The preliminary results from the inspections were published in a *December 2020 Supervisory Circular* to help RPs better understand CIMA's expectations and raise AML/CFT compliance standards across the sector. Noted key areas from the preliminary results included the need to improve documentation of policies and procedures and intensify ongoing monitoring.

618. RPs and Licensees are risk-rated and closely monitored by CIMA. In 2020, CIMA issued 526 requirements to SIB RPs and Licensees and took 312 enforcement actions under the Directors Registration and Licensing Act (DRLA). It has issued two administrative fine breach notices to SIB RPs.

619. Securities issuers (that are not regulated funds) are generally not required to be registered or licensed under the SIBA or any regulatory law. As noted in the paragraph, in order for a security to be accepted for listing on the CSX AML/CFT, due diligence is required. Most of the securities listed on the CSX are introduced by the CSX's registered listing agents/brokers. These listing agents/brokers must be licensed by CIMA, or law firms supervised by CARA, which licensing also includes AML/CFT supervision. Under the CSX rules listing agents are required to be licensed. Under the Schedule to the POCA, these activities are also required to comply with the AMLRs. CIMA has issued AML/CFT Guidance Notes amendments pertaining to Securitisation in May 2021.

620. CIMA continues to raise awareness of AML/CFT in the securities sector industry meetings and targeted outreach. CIMA continues to issue notices in relation to non-compliant entities, attends relevant industry meetings and publishes notices in relation to reoccurring observations throughout inspections of licensees and registrants alike. The imposition of conditions and administrative fines also continue to be implemented as/when necessary.

621. **In sum, the mitigating measures in place for the securities sector are good.**

### *Mutual Fund Administrators*

622. Mutual fund administrators (MFAs) are licensed under the MFA. They carry out RFB under the POCA and are therefore required to comply with the AMLRs. Persons who operate without a license commit an offence and are liable on conviction to a fine of one hundred thousand dollars.

623. The MFAs Sectoral Risk Assessment determined that the sector was a medium-high risk given the significant value of assets under administration. CIMA takes a risk-based approach to supervise the sector but given its relatively small size (77 MFAs) CIMA has allocated 5% of its AML/CFT supervisory staff to MFAs supervision.

624. In 2020, CIMA issued 93 requirements to MFAs and took several enforcement actions, including eight (8) license revocations/cancellations, one (1) cease-and-desist requirement and 990 enforcement actions under the DRLA.

625. CIMA has also conducted targeted outreach to MFAs to raise levels of understanding about the Cayman Islands funds regime and AML/CFT requirements. This has been both domestic and international (for example, for the Cayman Islands Compliance Association and the New York Bar Association).

626. Furthermore, CIMA expanded its AML/CFT coverage through the registration of private funds with the Private Funds Act of January 2020 and Private Funds Regulations in February of 2020. CIMA also expanded its AML/CFT supervision of investment products through the Private Funds Act of January 2020 and the Private Funds Regulations in February of 2020. This expanded supervision brought with it enhanced requirements, such as financial audits. While many fund administrators rely on the outsourcing of the services to funds, the outsourcing is mostly to jurisdictions with AML/CFT requirements similar to the Cayman Islands.

627. In sum, the mitigating measures in place for the Mutual Fund Administrator sector are **good**.

### *Insurance*

628. Insurance licensees are supervised by CIMA with regulatory requirements derived from the Insurance Act and the AMLRs (the latter insofar as they conduct RFB as defined under POCA). It is an offence under the laws in the Cayman Islands to carry on insurance business either as an insurer or insurance intermediary without a valid licence issued for that purpose by CIMA. Persons who operate without a license commit an offence and are liable on conviction to a fine of one hundred thousand dollars, or imprisonment for a term of five years, or both, according to 3(2) of the Insurance Act, 2010. The 2020 Insurance Sectoral Risk Assessment determined that the sector was a medium-low risk. Taking a risk-based approach, CIMA has allocated 5% of its AML/CFT supervisory staff to the insurance sector.

629. In 2020, CIMA issued 86 requirements following onsite inspections for AML/CFT and imposed seventeen (17) enforcement actions. The enforcement actions included five (5) license revocations and four (4) warning notices. Other enforcement actions included a winding-up petition, an appointment of controllers, and one administrative fine of \$72,800 for breaches of the AMLRs.

630. CIMA continues to raise awareness of AML/CFT in the insurance sector through its quarterly industry associations meetings and targeted outreach. These quarterly association meetings include private sector associations recognized in the MAA and affiliated with insurance or reinsurance business conducted in the Cayman Islands, including the Cayman International Reinsurance Companies Association, Cayman Islands Insurance Association, Insurance Managers Association of Cayman Limited, and The Cayman Islands Association of Financial Advisors.

631. In sum, the risk-mitigating measures in place for the insurance sector are **good**.

#### *TCSPs*

632. TCSPs are licensed under the CMA, BTCA and are subject to the AMLRs. As per s 22.1 (e) of the CMA, TCSPs are required to comply with CDD requirements when they provide a registered office, business address or accommodation, and correspondence or administrative address for a company, a partnership, or any other legal person or arrangement. TCSPs are required to report suspicious transactions when, on behalf of or for a client, they engage in a transaction in relation to the activities described in criterion 22.1 (e). Persons who operate without a license commit an offence and are liable on conviction to a range of fines under the BTCA and CMA.

633. In 2020, CIMA conducted a sectoral risk assessment of TCSPs. One of the main vulnerabilities identified was the role of TCSPs in preventing and detecting misuse of legal entities, particularly if no other corporate service is provided alongside the TCSP service. Taking into consideration the risks identified in the risk assessment of legal persons and arrangements and the TCSP sectoral risk assessment, CIMA allocated 30% of its AML/CFT supervisory staff to the TCSP sector and more than doubled its number of onsite inspections as compared to the previous year (2019).

634. CIMA also conducted a focused thematic review of a select group of TCSPs to assess their compliance with CDD obligations, including ongoing monitoring, as part of the supervisory review of the misuse of legal persons and arrangements, with a focus on BO information and ongoing monitoring of that information, source of funds etc.

635. During the thematic review, CIMA identified deficiencies in relation to the collection and maintenance of CDD information and ongoing monitoring practices. CIMA issued reports to the TCSPs reviewed and imposed requirements for remedial actions. Further, CIMA reviewed the risk ratings of these TCSPs, and some were placed on CIMA's High-Risk Entity List with an action plan to closely monitor their remediation efforts.

636. After the thematic review, CIMA issued a supervisory circular entitled "*Misuse of Legal Persons and Arrangements – Key Findings from the Legal Persons and Arrangements Risk Assessment and the Authority's Thematic Review*" (the "*Circular*"). The *Circular* included red flags and case examples to assist regulated entities' (with more focus on TCSPs) in understanding the risks of legal persons and identifying the trends synonymous with the misuse of legal persons. The *Circular* also made recommendations to assist regulated entities in strengthening their AML/CFT compliance practices and reducing the possibility of them being abused by criminals that utilise legal persons or arrangements.

637. In 2020, CIMA issued 429 requirements to TCSPs and has also issued two (2) administrative fines for breaches of the AMLRs; the first for \$482,717.50 and the second for \$4,232,607.500

638. In addition to sharing the results of the thematic review with regulated entities, CIMA engaged with fellow supervisors via the Supervisors Forum. Working closely with the Registrar of Companies, beneficial ownership compliance will continue to be a priority for CIMA in 2021 and beyond.

639. Finally, CIMA has also conducted targeted outreach to the TCSP sector through the Society of Trust and Estate Practitioners (“STEP”) and the Cayman Islands Company Managers Association (“CICMA”). Roundtable discussions were held with selected members of STEP and the CICMA.

640. In sum, the -mitigating measures in place for the TCSPs sector are **good**.

#### *Sectors Supervised by DCI*

641. The DCI has been the designated AML/CFT supervisor for the real estate sector and DPMS since March of 2017. It ensures that these businesses take preventative measures in accordance with the AMLRs. As the licensing agency for all entities conducting local business under the TBLA, the DCI keeps an updated register of all the persons conducting RFB as real estate agents, property developers, and DPMS. DCI maintains records of all beneficial owners of local businesses submitting applications under the TBLA to operate a business within the commercial space. In 2020 alone, DCI took 87 enforcement actions for failure to register as a DNFBP. All businesses supervised by the DCI must advise it should the nature of their business change, and exempted entities must reconfirm their eligibility for exemptions annually.

642. DCI publishes an annual report containing summary information on risk assessments conducted. Conducting these risk assessments, based on information collected from its DNFBPs, has helped the DCI to identify and build on its understanding of ML/TF risks.

643. In addition to face-to-face outreach activities, the DCI implemented a broad communication strategy across diverse media including online delivery. DCI’s website has a direct link to the Cayman Islands’ eLearning platform and DNFBPs are directly notified once new material is uploaded to the platform. A new addition to the DCI website is the chatbox facility, which guides and answers questions from DNFBPs accessing the website.

644. The DCI also carried out online or in-person internal capacity development covering a diverse range of topics to assist its staff in understanding and meeting their AML/CFT compliance obligations.

#### *Real Estate and DPMS*

645. During 2020, a total of 26 AML/CFT onsite and offsite inspections for both the real estate and DPMS sectors were conducted compared to 19 in 2019. The 2020 inspections observed greater compliance in the appointment of nominated officers, the quality of AML Manuals used, and the general knowledge base of the principals of the businesses



inspected. Given the relative newness of the AML/CFT supervisory regime for DNFBPs under the DCI's supervisory remit, areas of non-compliance included failure to implement an effective training plan for staff and carry out a company-wide risk assessment, lack of policies to deal with PEPs, and failure to carry out an independent audit of AML/CFT system. DCI took 12 enforcement actions in 2020 for failure to provide relevant information.

646. DCI undertook outreach to the sectors to bring about a higher level of awareness, which has resulted in a significant increase in the appreciation of the relevance of AML/CFT and the specific ML/TF risks for DPMS and real estate agents in recent years. DCI continues to build on the risk-based approach to supervision, monitoring, assessing and understanding sectoral risks, and providing guidance to supervised entities. The publication of its annual AML/CFT reports further assists real estate and DPMS registrants in enhancing their understanding of ML/TF risks.

647. In sum, the mitigating measures in place for the real estate and DPMS sectors are **good**.

#### *CARA's Supervised Lawyers*

648. CARA is the designated supervisor for attorneys and firms of attorneys-at-law within the Cayman Islands. In November 2019, CARA completed a registration exercise of firms of attorneys-at-law and sole practitioners. A total of 99 firms and sole practitioners registered with CARA as DNFBPs. Currently, 58 of these firms conduct RFB, and are, therefore, subject to proactive supervision and monitoring by CARA. As part of its regulatory activities, CARA maintains a register of attorneys.

649. CARA relies on fit and proper testing carried out by the Judicial Administration, which governs entry to the profession and a licence to practice. The fit and proper testing conducted by the Judicial Administration includes background checks such as criminal convictions, conduct history, complaints, and any court proceedings. CARA corroborates its reliance on the Judicial Administration's F&P tests with responses provided by firms in their initial registration form and subsequent annual AML Returns. Firms are required to respond and provide details if relevant persons have been subject to professional disciplinary findings, have any criminal convictions, or have been involved in any business which has been in administration or liquidation. CARA polices the perimeter by carrying out open-source checks (i.e., checking firm's websites, advertising etc.) and also liaising with the Judicial Administration, the DCI and the Workforce Opportunities & Residency Cayman (WORC) department to share information. In this way, CARA is able to identify firms or sole practitioners who may have failed to either register for a practising certificate, operating license and/or register with CARA.

650. Law firms and sole practitioners not conducting RFB are required to notify CARA if, at any time, this should change. Additionally, they are required to re-confirm, by way of self-declaration, their non-RFB status on an annual basis.

651. At the end of January and early February 2020, CARA issued Breach Notices under the DNFBP administrative fines regime set out in the AMLRs to seven firms for failing to register. As a result of CARA initiating this enforcement, two of the seven firms

registered. In March 2020, CARA issued Discretionary Fine Notices ranging from \$39,000 to \$75,000 to the remaining five firms.

652. CARA risk profiles each firm/sole practitioner in its supervised population based on the prevalence of red flag indicators. The risk profile is reviewed following any supervisory engagement with the firm and on the firm's submission of its annual AML Return. The risk profile enables CARA to focus its resources where the risks are greatest and determine the supervisory engagement plan.

653. In 2020, CARA performed a total of 22 inspections comprising both onsite and offsite inspections. There were nine remedial action plans detailing 81 potential failures to comply with the AMLRs and 16 potential breaches were referred to enforcement, the majority of which related to failure to register as a DNFBP as required under the AMLRs. CARA issued 6 administrative fines ranging from \$5,000 to \$75,000.

654. With regards to supervisory remediation and sanctions relating to the legal sector, CARA has developed an enforcement policy and procedure first published in January 2020 and last revised in July 2020. Measures and supervisory tools available to CARA to ensure firms comply with their AML/CFT/CPF obligations, including information requests, desk-based reviews, onsite inspections, thematic reviews and information and intelligence sharing.

655. CARA has recorded e-learning presentations to help its supervised population understand risks in the sector, CARA's expectations as a supervisor and the requirements of a practice-wide risk assessment. These presentations are housed on the eLearning platform and are available for free to any person who subscribes. CARA has advertised these eLearning modules through direct emails and outreach sessions.

656. CARA has issued advisory notices and conducted various online and in-person outreach sessions for attorneys conducting RFB to assist them in understanding and meeting their AML/CFT compliance obligations.

657. With regards to internal capacity development and training, during 2020, several CARA staff attended several in-person training sessions or workshops. CARA also utilizes various online course providers which offer relevant certifications and continuing professional development training to its staff. Supervisory powers available to CARA include administrative fines, cancelling a firm's registration if a firm fails to comply with the AMLRs or if a firm (or connected person in relation to the firm) is deemed not fit and proper. CARA can also make a referral to the ODPP for consideration of criminal prosecution.

658. In sum, the mitigation measures for lawyers were assessed as **good**.

#### *CIIPA's Supervision of Accountants*

659. CIIPA is the designated supervisor for accountants and is charged with registering all accounting firms or practitioners as DNFBPs. To be eligible for membership, accountants must meet certain criteria including that they qualified with an OPAL. It is not mandatory for all individual accountants to become a member of CIIPA to work as an accountant or bookkeepers in the Cayman Islands. However, it is mandatory for a firm of

accountants to register with CIIPA and those that conduct RFB (as defined in the POCA) to be monitored by CIIPA in that regard.

660. CIIPA is committed to ensuring accountants conducting RFB understand and meet their AML/CFT compliance obligations. In 2019, CIIPA launched a public awareness campaign across print, radio and digital media to ensure all accounting services providers were aware of AML/CFT obligations and CIIPA's role as supervisor of the profession. 16 notices related to AML/CFT were circulated via direct email on topics such as CIIPA's updated sector risk assessment, AMLR revisions, risk assessment of legal persons and arrangements, and reporting suspicious activity. CIIPA also hosted or co-hosted 11 training courses either in-person or via webinar covering a variety of topics from ML/TF/PF risks to typologies and trends. Additionally, CIIPA established the Anti-money Laundering Compliance Officer (AMLCO) Forum which meets quarterly to address any changes or updates in the AML/CFT landscape, supervision, or compliance. CIIPA published its ML/TF/PF Inherent Risk Report relating to accounting services in June 2020.

661. During the year 2020, 14 inspections were performed compared to 8 in 2019. There were 73 findings across the 14 inspections, with key areas for improvement being ongoing monitoring, screening, and documentation of client risk assessments. There were no fines or enforcement actions arising from these findings. In 2021, CIIPA inspected 5 registered firms conducting RFB thereby completing inspections on 100% of firms.

662. In regard to internal capacity development and training, the supervision team participates in the annual AML/CFT update course and attend additional training as needed. In 2019, two members of staff attended a 3-day supervision course hosted by CFATF. In 2020, two members of staff attended PF training with Kings College and a joint event hosted by AML Supervisors. Additionally, two of the supervision team are currently working towards CAMS certifications.

663. CIIPA has issued various advisory notices and conducted various online and in-person outreach sessions for accountants conducting RFB to assist them in understanding and meeting their AML/CFT compliance obligations.

664. In sum, the mitigation measures in place for accountants are **good**.

#### *Financial Leasing*

665. The financial leasing sector, which is international, is associated mainly with shipping and aircraft financing and the use of SPVs. Most of the financial activities occur within TCSPs that are supervised by CIMA. CIMA has issued guidance for SPVs that will positively impact the sector in the future.

#### *VASPs*

666. The Cayman Islands mitigates risk around VAs and VASPs by regulating VASPs under the VASP Act. All VASPs are subject to the obligations prescribed under the AMLRs, and must take steps to identify, assess, and understand their ML/TF risks in relation to customers, geographic areas, products, services and transactions, and delivery channels.

In addition, they are required to align all aspects of their internal controls and procedures with their risk understanding, including CDD procedures, transaction monitoring systems, and the independent audit function. CIMA has further issued Guidance Notes specifically for VASPs (including compliance with the ‘travel rule’).

667. Notably, the VASP Act applies to issuances of virtual assets. This inclusion reflects the jurisdiction’s assessment of risk following the relatively high volume of issuances from 2018 to 2020. To mitigate these risks, the jurisdiction added a regulatory framework for issuances in the VASP Act, including the requirement for issuers to seek approval and be registered under the Act before engaging in an issuance. This oversight will help mitigate ML/TF/PF risk by identifying issuances taking place within the jurisdiction and enforcing AML/CFT/CPF requirements.

668. CIMA applies a risk-based approach to supervising VASPs. However, VASPs are currently only supervised for AML/CFT, and CIMA’s full licensing regime has yet to commence. CIMA’s controls will be strengthened through enhanced prudential oversight.

669. Where they are not meeting the standards expected of them, CIMA has enforcement powers including revocation of license or registration, and administrative fines for breaches of the AMLRs up to \$1,000,000 per ‘very serious breach (as defined under the AMLRs). VASPs are also required to adhere to the obligations outlined under the TFS regime of the Cayman Islands, which has been a responsibility of the FRA since 2016. Breaches of the regime can lead to imprisonment of up to three years and a fine of up to \$70,000.

670. CIMA also sends out Notices of Direction to Respond, Register of Cease-and-Desist to those entities that may be conducting virtual asset activities in the Cayman Island but have not yet applied for registration. Acting as a VASP without being registered by CIMA carries a criminal penalty of up to \$100,000, and CIMA will refer entities to law enforcement where appropriate and proportionate. CIMA conducts regular outreach for industry regarding AML obligations and VASPs. CIMA also engages regularly with industry associations to consult on proposed changes and gather necessary information on the sector.

671. In sum, the mitigation measures in place for VASPs are **satisfactory**.

### **Conclusion on Strength of Sector-Specific Controls and Associated Rating**

672. As can be seen from Table 36: Overarching , the Cayman Islands achieved ratings for sector-specific risk-mitigating measures that were predominantly **Good**. The mitigating measures for VASPs were also satisfactory as the supervisory framework was being implemented in accordance with recent FATF requirements.

673. In arriving at the rating of the control, consideration was given to the following factors: the comprehensiveness of AML framework, for example, the specific legislation applicable to the sectors; the effectiveness of supervision oversight, including how national and sectoral risk assessments impact the frequency and intensity of supervision; the availability and enforcement of administrative and criminal sanctions; the availability and effectiveness of entry controls; and the targeted outreach and training to the sectors.

674. At the time of the drafting of this NRA, nearly all the sector-specific controls were determined to be good, and thus to align with the assessment of national and sector-overarching controls. The exception was VASPs, assessed as having satisfactory controls, given the full licensing regime has yet to be commenced.

675. Furthermore, for certain unsupervised sectors, such as financial leasing, risk mitigating measures were deemed as not applicable.

## CHAPTER III – **TERRORISM FINANCING RISKS**

### III.1. **TF Threat**

676. Terrorism is a global threat with high social and economic costs. Its estimated global costs were \$33 billion in 2018<sup>48</sup>, without accounting for indirect impacts on investment, business activity and costs associated with measures for countering the financing of terrorism (CFT). Terrorist activity continues to dynamically adapt to changing environments and the means used for terrorist financing (TF) continue to evolve.

677. The Cayman Islands is historically a lower risk jurisdiction regarding terrorism given the Islands' demographics and geography. Whilst the Cayman Islands has a specific risk profile associated with its status as an international financial centre, as a British Overseas Territory, it also retains a specific and unique advantage in terms of its relationship with the United Kingdom. The infrastructure that exists within the United Kingdom is recognized as the global standard which will be leveraged in terms of training, capacity building, intelligence sharing, mentoring and ultimately mutual aid in support of significant investigations.

678. There is a limited body of evidence relating to terrorism financing typologies that affect the Cayman Islands. The CIBFI is responsible for the investigation of TF. During the period 2019 – 2021, CIBFI conducted five TF investigations, four of which were as a result of disclosures from the FRA, and one was from open-source intelligence. Of the five TF investigations, four were closed as no offences were detected and one is ongoing. Between 2017 and 2020, the FRA received 20 SARs classified as TF. Of those, 11 were disclosed to RCIPS, 5 to overseas FIUs, 3 to CIMA, and 1 to immigration (CBC). Six SARs were closed with no further action and 3 are in progress.

#### **Case Study 13**

A SAR initiated by adverse media was filed with the FRA. A disclosure was subsequently disseminated to law enforcement regarding a foreign national believed to be a Hezbollah (terrorist) financier who invested approximately US\$500,000 in the Cayman Islands through a legal entity. The legal entity is an investment vehicle for Middle Eastern investors. The investment was made in 2012. In October 2020, the balance in the investment account was approximately US\$1,600.00. According to additional open-source information, in 2019 the financier, who is based in another

48 The Economic Impact of Terrorism from 2000 to 2018, from the Journal Peace Economics, Peace Science and Public Policy (<https://www.degruyter.com/document/doi/10.1515/peps-2020-0031/html>)

jurisdiction, was interviewed by US authorities. The terrorist financing allegations were made on an internet website and appeared to be supported by a subpoena from the US authorities to the investment manager. Law enforcement authorities commenced an investigation and communicated with the US authorities and the Cayman Islands legal entity. There was insufficient evidence to substantiate that the funds in the Cayman Islands legal entity were held for the purposes of terrorist financing and the case was closed.

#### **Case Study 14**

A disclosure was received from the FRA which stated that a foreign national owned shares in an Investment Fund registered in the Cayman Islands as an Exempted Company. It was also alleged, that the foreign national was listed 'Designated' by several foreign jurisdictions (all of the said jurisdictions share a common Designated List). The foreign national is not designated on a list applicable in the Cayman Islands. The value of the shareholding is said to be U\$50,000. The investigation is closed.

#### **Case Study 15**

A disclosure was received stating inter alia that a charitable organization A in Jurisdiction A used the Cayman Islands' financial system and transferred US\$300,000.00 to another charitable organization B also in Jurisdiction A. The financial entity utilised to facilitate the transaction was a Category B Bank registered in the Cayman Islands. The beneficiary of the funds, charitable organization B, was reported to be 'Designated' (listed as a terrorist entity) in Jurisdiction A. Law enforcement authorities commenced investigations and the financial institution that was allegedly used, confirmed that no funds were sent to the Designated entity from charitable organization A from the date the entity was designated. The investigation was closed as there was insufficient evidence to support the allegation.

679. Between 2017 and 2020, the FRA received 15 requests for information (RFIs) from overseas FIUs that were classified as TF related. Two of these cases were alerts from FIUs about suspected terrorists travelling on fake passports and had no direct links to the Cayman Islands; however, they were shared with LEAs for intelligence purposes. The other two had links to Cayman Islands VASPs.

680. Between 2017 and 2020, the FRA received 12 requests from the RCIPS that were classified as TF related. On 10 of these requests, the FRA made 13 RFIs to overseas FIUs to obtain information to assist RCIPS with its investigation.

681. In conclusion, while the body of evidence available to the Cayman Islands on TF is still limited, the case studies put forward suggest that TF threats exist even though there are very few indicators to suggest that significant movements of terrorism-related funds take place through the Cayman Islands. The Cayman Islands recognizes that, given the internationally acknowledged difficulties in detecting TF, it cannot simply be assumed that the absence of these indicators means that the Cayman Islands is not being used for TF purposes. To fully understand the risk that the jurisdiction may face in this regard, as a next step the NRA examines the inherent TF risk that the Cayman Islands faces by way of the business that is being conducted in the jurisdiction.

## III.2. TF Inherent Risks

682. The Cayman Islands published a Terrorist Financing National Risk Assessment in February 2020. In developing the risk assessment methodology, the Cayman Islands was guided by international papers such as the *FATF Terrorist Financing Risk Assessment Guidance* of July 2019 and the Moneyval Guidance Paper on *Assessing TF Risks for International Financial Centers with Low Domestic Terrorism Risk*. To conduct the risk assessment, as many of the data sources referenced in these papers as possible were sourced and analysed, in addition to other sources identified by the Cayman Islands as being of relevance. When analysing and structuring the data and other information, it was necessary to define the term “high-risk jurisdiction.” Countries focused on for purposes of the analysis were identified based on publicly available information such as the FATF list of high-risk and other monitored jurisdictions,<sup>49</sup> and the Global Terrorism Index 2018 issued by the Institute for Economics and Peace<sup>50</sup>. It was determined that higher risk jurisdictions would best be broken down into two tiers.<sup>51</sup> The same methodology has been used for this risk assessment.

683. There are three main terrorism funding methods identified in various international guidance and best practices papers: (1) collection; (2) movement; and (3) use of funds for terrorism purposes or to benefit terrorist organizations. In terms of these funding methods, the Cayman Islands seems to have exposure predominantly to the movement method.<sup>52</sup> The Cayman Islands’ most likely exposure to TF results from its cross-border business and financial transactions and activities, with the attendant possibility that the services and products offered or assets being channelled through the Cayman Islands are used by parties outside of the country to fund terrorism abroad.

Table 37: TF Inherent Risk Rating

Financing Method	Inherent Risk	Strength of Controls
Collection	Low	Strong
Movement	Medium-Low	
Use	Low	
OVERALL	Medium-Low	

### III.2.a. Collection

684. The Cayman Islands geographic and demographic landscape is such that the risks of terrorism-related funds being physically collected in the Cayman Islands are low. No cases have been identified to suggest such activities are taking place in the Cayman Islands. Based on the information reviewed, there are no parts of the Cayman Islands

<sup>49</sup> 1 <http://www.fatf-gafi.org/countries/#high-risk>

<sup>50</sup> 2 <https://reliefweb.int/sites/reliefweb.int/files/resources/Global-Terrorism-Index-2018-1.pdf>

<sup>51</sup> Tier 1: Iraq, Afghanistan, Nigeria, Somalia, Syria, Pakistan, India, Yemen, Egypt, the Philippines. Tier 2: Democratic Republic of Congo, Turkey, Libya, South Sudan, Central African Republic, Cameroon, Thailand, Sudan, and Kenya

<sup>52</sup> Financing of the Terrorist Organization of Islamic State in Iraq and the Levant (ISIL), FATF Report, February 2015; Emerging Terrorist Financing Risks, FATF Report, October 2015. National Money Laundering and Terrorist Financing Risk Assessment, FATF Guidance, February 2013; MONEYVAL Guidance Paper on Assessing TF Risks for International Financial Centers with Low Domestic Terrorism Risk; UNODC Guidance Manual for Member States on Terrorist Financing Risk Assessments.

local population that may be sympathetic to active terrorists or terrorist organisations; and there is no information or intelligence to suggest that any particular diaspora would be presenting a higher risk or display signs of radicalisation.

685. Unlike other countries in the region, the Cayman Islands also does not have any known cases of its citizens travelling overseas to support terrorist activities on foreign soil (so-called “Foreign Terrorist Fighters”). The risks associated with the NPO sector in the Cayman Islands has been determined to be low, as outlined in detail below, and NPOs in the Cayman Islands within the scope of the FATF Recommendations are subject to risk-based monitoring. At the moment, the Cayman Islands considers that it exhibits low risk of being abused for funds collection activities related to terrorism.

#### Case Study 16

A proactive case commenced as a result of open-source reports that detailed two separate cases of terrorism financing ( Hamas and ISIS) that was allegedly facilitated by a Cayman Islands Cryptocurrency Exchange. At the request of domestic law enforcement, FRA made requests to two overseas FIUs for information concerning the operators of the exchange and the alleged terrorism funding.

Domestic law enforcement also confirmed that it had requested assistance from law enforcement counterparts overseas and that additional matters pertaining to national security and other financial crimes were discovered. Based on the information received and reviewed, the TF risk to the Cayman Islands was not substantiated and the TF investigation was closed.

#### III.2.b. *Movement*

686. The Cayman Islands’ most likely exposure to TF risks is through being used by parties outside of the country to fund terrorism abroad. The numbers of domestic investigations or prosecutions and suspicious activity reports relating to TF, as well as intelligence reports of TF from foreign agencies, requests for assistance in TF cases from other jurisdictions, and assets frozen under terrorism-related United Nations Security Council Resolutions or criminal procedures, are very limited. Broadly speaking, the movement of terrorism-related funds through the Cayman Islands could occur in one or more of the following ways:

- Typology A: The Cayman Islands is used as a transit country for funds that are intended to be used for terrorism purposes abroad, with funds being sent via the Cayman Islands either through banks, other payment channels such as MSBs, or being physically moved through the Cayman Islands’ territory.
- Typology B: The Cayman Islands regulated service providers knowingly or unknowingly facilitate the movement of funds for terrorism purposes but without the funds actually entering or moving through the Cayman Islands – for example, Cayman lawyers providing services to customers that support foreign terrorism.



- Typology C: Cayman Islands legal entities are abused for terrorism financing purposes.

### **Typology A – Terrorism-Related Funds are Moving through CI to support terrorism abroad**

687. The definition of “funds” as provided under FATF standards is very comprehensive and covers assets of every kind. Accordingly, the analysis for movement typology A has to be conducted not only for funds transfers but also for the movement of goods and other items of interest. The analysis of funds transfers from and to the Cayman Islands discussed below is based on available SWIFT data for the period 2014 to 2018, broken down by originating and receiving jurisdictions, bank inflows and outflows submitted to CIMA for 2019 and 2020 for Tier 1<sup>53</sup> and Tier 2<sup>54</sup> jurisdictions (top 20 countries listed in the 2020 Global Terrorism Index published by the Institute for Economics and Peace), and inherent risk data collected from the banking sector. A separate analysis was also performed of inflow/outflow data through MSBs as collected by CIMA and cash declarations analysed against the physical movement of persons from high-risk jurisdictions.

#### *Bank Outflows*

688. Between 2014 and 2018, only 0.005% of the total outflows sent from the Cayman Islands were to higher risk terrorism jurisdictions through SWIFT single customer transfers. Most outflows to higher risk countries went to three Tier 1 countries. Of note, these countries have ties with the Cayman Islands’ licensed sector and demographic make-up. Less than 5% of the total outflows to higher risk countries went to 5 other Tier 1 countries.

689. Between 2019 and 2020, only 0.088% of the total outflows sent from the Cayman Islands were to higher risk terrorism jurisdictions (Tier 1 and Tier 2) through SWIFT single customer transfers. Of the total amount sent to higher risk jurisdictions, 69.48% was sent to Tier 1 countries, with three Tier 1 countries accounting for a combined total of 99.94% of transfers. Of note, these countries have ties with the Cayman Islands’ licensed sector and demographic make-up. The remaining total of 30.52% of funds was sent to Tier 2 jurisdictions, with three Tier 2 countries accounting for a combined total of 99.96% of all transfers.

#### *Bank Inflows*

690. Between 2014 and 2018, only 0.03% of all funds received by the Cayman Islands came from Tier 1 and Tier 2 high-risk jurisdictions. The majority of inflows were from three Tier 1 countries that have ties with the Cayman Islands’ licensed sector and demographic make-up, and three Tier 2 countries.

691. Between 2019 and 2020, only 0.085% of all funds received by the Cayman Islands came from Tier 1 and Tier 2 high-risk jurisdictions. On inflows from Tier 1 jurisdictions, higher volumes were received from three countries that have ties with the Cayman

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<sup>53</sup> Tier 1: Iraq, Afghanistan, Nigeria, Somalia, Syria, Pakistan, India, Yemen, Egypt, the Philippines.

<sup>54</sup> Tier 2: Democratic Republic of Congo, Turkey, Libya, South Sudan, Central African Republic, Cameroon, Thailand, Sudan, and Kenya

Islands' licensed sector and demographic make-up. The majority of Tier 2 funds were received from three countries.

#### *MSBs Transfers*

692. Funds flow data through MSBs is kept by CIMA. A review of the data for the years 2014 to 2020 indicates that significant flows were recorded between two Tier 1 countries and one Tier 2 country, which is not surprising given the large migrant workforce from these countries in the Cayman Islands.

#### *Inherent Risk Data from Banks*

693. From a customer perspective, approximately 1.5% of the client base of Category A and Category B banks is from Tier 1 and Tier 2 high-risk countries

694. From a beneficial ownership perspective, Category A and Category B banks have immaterial exposure to Tier 1 and Tier 2 high-risk countries.

695. From a product/service perspective, the inherent risk data provided by banks indicate that no bank is selling or accepting prepaid cards or virtual currencies as a means of payment.

696. From a distribution channel perspective, no clients are onboarded in Tier 1 or Tier 2 high-risk jurisdictions using online platforms, or through eligible third-party introducers located in Tier 1 or Tier 2 high-risk jurisdictions.

697. From a structural perspective, Cayman Islands banks have minimal connections with Tier 1 or Tier 2 countries. One Cayman Islands bank has a parent company in a Tier 1 country, and four have a parent company in a Tier 2 country. One bank has a branch in a Tier 1 country and eleven banks have affiliates or a sales office across 1 Tier 1 country and 2 Tier 2 countries.

#### **Typology B – Cayman Islands Regulated Service Providers knowingly or unknowingly Provide Services to Customers involved in terrorism or terrorism financing without the funds actually entering or moving through the Cayman Islands**

698. The below reflects an analysis of inherent risk data only from a TF perspective based on the above-outlined methodology. While this analysis does not reveal any particular inherent risks specific to TF, it should be borne in mind that in general, legal entities feature frequently in illicit schemes and face a higher risk of being abused for illicit purposes.

#### *Inherent Risk Data from TCSPs*

699. From a customer perspective, Cayman Islands TCSPs service predominantly companies set up in the Cayman Islands. Both TSPs and CSPs have a low percentage of PEPs and persons from high-risk jurisdictions as clients.

700. From a product/service perspective, the inherent risk data provided by TCSPs indicate that the majority of legal entities serviced by Cayman Islands TCSPs are involved in investment, funds management, real estate, technology and telecommunications

activities, serve as holding or special purpose vehicles, or are involved in the aviation and shipping industry.

#### *Law Enforcement Information*

701. One case involving a movement typology B discussed in the public domain is FBME bank, a Tanzanian licensed bank for which the holding company was established in the Cayman Islands and serviced by a Cayman Islands TCSP. The bank was alleged to be involved in terrorism financing and investigated by the US federal police for TF. The Cayman Islands holding company was struck off the company registry in 2016 after the Cayman Islands TCSP ended its relationship with the company.

#### **Typology C – Cayman Islands companies are used to channel funds or otherwise facilitate funding of terrorism**

702. Globally speaking, legal entities and arrangements are one of the most frequently used vehicles in illicit schemes. An absence of investigations and prosecutions involving terrorism schemes through legal entities does not, however, necessarily lead to the conclusion that the risk of abuse of legal entities for TF purposes is low.

703. Financial technologies enable terrorists to transfer funds between people, facilitate payments and move money around the world instantaneously. Terrorists and extremists solicit donations from their supporters and encourage them to use financial technologies, often touting the anonymity or increased privacy of these tools over that of banks or traditional money service businesses.

704. A recently observed typology that could give rise to concern from a TF perspective is the raising of funds by terrorist networks through legal entities (straw companies), using crowdfunding techniques. It appears that there have been cases where online wallets controlled by straw companies associated with terrorist networks were credited with investments from donors all over the world. The investments have come either in fiat or virtual currencies and were utilised in either form by the recipients. The limited information available suggests that the connection with the Cayman Islands in these cases was that the company offering the exchange platform was a Cayman Islands legal entity.

705. While no cases have been identified through local intelligence involving terrorism financing through initial coin offerings (ICOs) or other virtual assets related transactions, there is a risk that closed ICOs, in particular, could be used as a vehicle for channelling funds to terrorists or terrorist organisations. Some reports involving such typologies also were identified by foreign intelligence services.

#### *III.2.c. Use*

706. The Cayman Islands has no history of terrorist attacks in the country. No intelligence or other information has so far been identified that would suggest that any terrorists or terrorist organisations are operating in or from or are targeting the Cayman Islands. also has not identified any parts of the population that would be sympathetic to terrorist causes or radical ideas. No foreign terrorist fighters of Cayman Islands nationality have been identified.

707. A review of all terrorism-related investigations conducted in the Cayman Islands revealed one case involving a non-Caymanian individual that had received military training from suspected radicals in another regional jurisdiction and had received funds from numerous third parties via a Cayman Islands NPO, some of which originated from an individual located in the Middle East. The investigation into the Cayman Islands NPO resulted in no further action being taken. The individual has since relocated to another jurisdiction and remains a person of interest in the wider, regional radicalisation context and the Cayman Islands is providing ongoing international cooperation in this matter.

708. Overall, the risk of funds being used in the Cayman Islands to conduct terrorist activities locally, or for use by local terrorists or terrorist organisations is low.

### **CONCLUSION ON MOVEMENT TYPOLOGIES A – C**

709. In conclusion, the Cayman Islands considers that it has a **medium-low** risk of terrorism-related funds being moved through the jurisdiction through one or more of the above-outlined typologies, with legal entities and regulated service providers being at the forefront of this risk exposure. Financial flows through, and some exposure to higher risk countries exist based on customer, product/service, delivery channels and structural linkages with the Cayman Islands' banking system but are limited in value and number and in many instances seem to result from legitimate ties and social connections between the Cayman Islands and the receiving country. Given that terrorism financing often involves low amounts and funds from legitimate sources, the possibility that fund transfers are flowing to or from terrorist networks or terrorists operating globally does however exist and may not be underestimated. In comparison, the risk of physical transportation of cash to/from the Cayman Islands for TF purposes is considered to be low.

### **III.3. TF Mitigating Measures**

710. To address any potential risk arising from the movement of funds, particularly as it relates to service providers knowingly or unknowingly providing services to clients involved in terrorism or terrorist financing without funds actually entering or moving through the Cayman Islands, all supervisors have:

- i) Circulated the TF risk assessment to their regulated entities.
- ii) Increased their outreach, guidance and training material to enable their regulated entities to better understand the risk of TF and detect its cases.
- iii) Implemented more robust onsite inspection procedures in relation to examining the frameworks of licensees for identifying potential terrorism financing cases.
- iv) Increased their internal capacity through internal training on TF prevention and supervision.

711. The AMLRs apply to both ML and TF. CIMA introduced quarterly cash flow reporting by banks to better understand the TF risks associated with cross border movement of funds. These returns are being used to inform the risks in the banking sector and the inspection/supervisory strategy, as well as ad hoc questions regarding

payments to high-risk countries, including sudden shifts in the origin and destination of funds. For MSBs, the returns are on a bi-annual inspection cycle.

712. The FRA's responsibility includes ensuring the implementation of TFS with respect to terrorism, terrorism financing, proliferation, proliferation financing, and other restrictive measures related to AML, CFT and CPF from and within the Cayman Islands.

713. In September 2019, the FRA issued a *Quick Guide to Financial Sanctions* in the Cayman Islands, which provides key information regarding the obligations of businesses and individuals in relation to financial sanctions. The document is available on FRA's website.

714. In October 2019, the FRA introduced a new "automatic emailer" mechanism to ensure the timely communication of TFS relating to TF and PF to facilitate the freezing of assets without delay by FIs and DNFBPs. Through this mechanism, financial sanctions notices are primarily sent automatically to FIs, DNFBPs, NPOs and competent authorities including online subscribers immediately after they have been published on the FRA website. The sanctions notifications are accompanied by a note advising entities what to do if there is a sanctions match.

715. In February 2020, the FRA also issued *Financial Sanctions Guidance* which included, among others, the following: governance of the Cayman Islands sanctions regime, an overview of the nature of financial sanctions, financial sanctions obligations and restrictions, asset freezing, reporting obligations to the FRA, and enforcement actions for noncompliance. With regards to FRA's outreach and training in 2019 and 2020, presentations were made at 15 outreach events organised by the National Coordinators office, supervisors, industry associations and private sector. The FRA presented at 2 financial institutions that had requested a private presentation for their staff on TFS related to TF and PF. Presentations were also made at 7 training events: 3 for frontline staff of a law enforcement agency on TFS related to TF, PF, and dual-use goods; and 4 for staff members of 3 government agencies on TFS related to TF and PF. Outreach and training focus on raising awareness of TFS, reporting obligations, and evasion of TFS.

716. The 20 TF SARs reported to the FRA between 2019 and 2020, along with 11 onward disclosures to the RCIPS and investigations by CIBFI, are all indicative of enhanced intelligence and investigative capacity for TF in line with the risk profile of the jurisdiction. CIBFI closed three TF investigations, while three remained active at the end of 2020.

717. The National AML/CFT/CPF Strategy was amended by the addition of an annex detailing the actions to be taken following the targeted risk assessments, including TF. Law enforcement agencies have circulated the TF risk assessment to their staff and have received training on TF detection and investigation. The FCFG has developed a strategy statement that prioritizes TF investigations and specifically references the findings of the TF risk assessment. The FCIU/CIBFI and ODPP have amended their policies to ensure TF cases are prioritized appropriately and the findings of the risk assessment are incorporated.

718. **Conclusion:** The mitigating measures in place for TF were rated as **Good**. The Cayman Islands has all necessary measures in place, including heightened awareness and adequate human and technical resources to contend with the threat of terrorism, TF, and TFS related to TF.

## CHAPTER IV – **PROLIFERATION FINANCING RISKS**

### IV.1. **PF Threats**

719. As of the end of 2020, there were no identified cases of Iran or DPRK related sanctions evasion schemes involving the Cayman Islands. There were no SARs were filed in relation to PF, no targeted assets or funds were located or frozen, and there were no known cases or investigations of PF in the Cayman Islands or requests from international counterparts for information relating to PF. To date, the FRA, CIBFI, or ODPP has not received any international requests for information regarding PF. Occasionally, the Maritime Authority of the Cayman Islands (“MACI”) receives requests for information concerning Cayman Islands ships and their owners, but to date, no international requests have been received concerning PF.

720. Even though in sum there are very few indicators to suggest that significant movements of targeted Iran/DPRK related funds take place through the Cayman Islands, it is recognised that, given the internationally acknowledged difficulties in detecting PF, it cannot simply be assumed that the absence of these indicators means that the Cayman Islands is not being used for PF purposes. The recently published *FATF Guidance on Proliferation Financing Risk Assessment and Mitigation*<sup>55</sup> emphasises this fact and notes that even though a particular country may have an absence of cases involving known or suspected breaches, this does not mean the country does not face any PF risks.

721. The Cayman Islands is not a weapons manufacturing jurisdiction, an international trade centre or a market for proliferation goods. However, the jurisdiction offers a range of products and services which makes it attractive for non-residents to establish businesses without having a physical presence in the Cayman Islands. Financial services accounted for 43.2% of the GDP in 2019 with most financial services targeted towards non-resident customers. There is currently no evidence to suggest that the Cayman Islands regulated entities are involved in financing proliferation activities. However, whilst there may be no direct PF links, the exposure to the international financial market poses risks of PF-related sanctions being evaded through the Cayman Islands. In addition, as noted in recent typologies, designated persons and entities continue to explore new ways to evade TFS.

### IV.2. **Inherent Sanction Evasion Risks**

722. The Cayman Islands’ most likely exposure to PF results from its cross-border business, financial transactions and activities, and the significant corporate sector that

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<sup>55</sup> FATF (2021), *Guidance on Proliferation Financing Risk Assessment and Mitigation*, FATF, Paris, France, <https://www.fatf-gafi.org/publications/financingofproliferation/documents/proliferation-financing-risk-assessment-mitigation.html>

conducts business around the world without necessarily having strong ties with the local financial sector.

Table 38: Summary of Inherent Risk Rating for PF

Areas of Risk	Inherent Risk
Corporate Infrastructure	High
Banking and Money Services Business	Medium-High
Trust and Corporate Services Provider	Medium-High
Maritime Insurance and Reinsurance	Medium-High
VASPs	Medium-High
Dual Use and High-Tech Goods	Medium-Low
DPRK Workers	Low
Real Estate	Medium-Low
Shipping Registry	Medium-High
Aircraft Registry	Medium-High
<b>OVERALL</b>	Medium-High

#### IV.2.a. *Corporate Infrastructure*

723. UNSCR 2231 (2015) and UNSCR 2270 (2016) note that Iran and DPRK frequently use front companies, shell companies, joint ventures and complex, opaque ownership structures to evade targeted financial sanctions imposed by relevant UNSCRs. Recent typologies identified by the Panel of Experts Reports indicated that designated persons and entities, and those acting on their behalf have quickly adapted to sanctions and developed complex schemes to make it difficult to detect their illicit activities. One Panel of Experts Report investigation in 2019 found that at least five front companies had been established by designated entities and those acting on their behalf to hide their beneficial ownership of the various cross-border (US\$-denominated) financial transactions. This involved two different jurisdictions in Asia and a different front company was used in each different transaction. In another investigation, shell and front companies were set up for transferring funds to designated persons and entities, and the companies were subsequently closed when the Panel of Experts started enquiries about the companies.

724. In light of the number and variety of legal persons and arrangements that exist within the Cayman Islands, the national risk exposure to the utilisation of complex and long-standing networks of front and shell companies to mask the origin and true purpose of the funds used in transactions is significant. This also includes the establishment of multiple bank accounts within the Cayman Islands and other foreign jurisdictions with linkages to the Cayman Islands to enable those engaged in proliferation and PF activity to use the international banking system to facilitate transactions for funds and supplies to support their activities.

725. There are documented Caribbean case studies of proximate risks, which also pose potential PF sanction evasion risks for the Cayman Islands.

### **Case Study 17**

#### **Use of Front Companies to facilitate Sanctions Breaches by a Designated Entity**

In March 2013, Dandong Hongxiang Industrial Development Co. Ltd (“DHID”) agreed to sell 20,000 metric tons of urea fertiliser to a DPRK company, subject to a guarantee from the designated bank that payment had been made by the company before the cargo was to be loaded. A DHID front company thereafter arranged the purchase of 10,000 metric tons of urea from a Singapore Distributor. Bank records show that Fully Max Trading Ltd, a BVI-based DHID front company, paid the Singapore supplier almost US\$3.9 million, in a series of seven instalments between May and June 2013. All the payments transited the US financial system. Bank records also show that between May and June 2013, Fully Max Trading Ltd received a deposit of about US\$ 4.8 million into its account at China Merchants Bank from a DHID account. These funds transited the U.S. financial system through a US correspondent banking account at Standard Chartered Bank. DHID made a profit of about 23% on the deal.

This case study illustrates how jurisdiction in the same region as the Cayman Islands, which is also an international financial centre, was misused for PF related sanctions evasion. Whilst this case study relates to an OFAC designated entity, the observations which stem therefrom are equally useful in assessing activity that takes place with UN-designated entities.

726. The Panel of Experts report further states that despite both multilateral and unilateral sanctions prohibiting the export of coal and targeting those involved in these activities, DPRK-linked networks have continued to operate internationally and have often successfully evaded these measures. They have relied on a range of third-party actors, networks, and complex front company structures to access the US and international financial systems. One such network centres on a China-domiciled company named Weihai World-Shipping Freight, which was designated by the US in February 2018 and the UN Security Council and the EU in March 2018.

727. After being designated, Weihai World-Shipping Freight affiliated shareholders, directors and companies continued to operate vessels with clear links to DPRK and its prohibited exports of coal in 2018 and 2019. Out of six vessels in this network with links to DPRK and its coal smuggling operations, four were owned by companies registered in the UK. Thus, in the same way, there is a potential threat of a Cayman Islands registered entity owning and controlling vessels involved with links to DPRK coal smuggling operations.

728. Notwithstanding the lack of uncovered links between the Cayman Islands and DPRK and Iran, there is the potential for misuse for the potential breach, non-implementation, or evasion of TFS related to PF given the often sophisticated and complicated ownership structures and transnational networks used by proliferators to evade sanctions. As such FIs, DNFBPs, and VASPs may not be able to identify illicit PF



transactions or methods that could be used to facilitate PF on behalf of designated persons. This further underscores the importance of robust CDD frameworks to understand the clients, the nature of their business and structure (including ownership and control), and jurisdictions with which they trade or where they operate. The threat of legal persons and arrangements being used in TFS-PF sanctions evasion is rated **high**.

#### *IV.2.b. Financial Activities*

729. Proliferation networks exploit the financial system to carry out transactions through complicated transnational corporate structures, using intermediaries, shipping registries, front companies as well as other legal persons and legal arrangements. The Cayman Islands is exposed to some of these potential PF threats, including through the misuse of banks and other financial institutions with foreign branches, with, for example, the Cayman Islands being used as a transit country for funds that are intended to be used for proliferation purposes abroad.

#### *Banking and Money Services Businesses*

730. Banking is at the centre of Cayman Islands financial services industry. While the Cayman Islands does have a large expatriate population, there are no known cultural or other domestic ties with Iran or the DPRK. There is no data to suggest that the Cayman Islands' domestic banking or money services sectors have been misused for proliferation or proliferation financing. Inherent risk data provided by banks also did not reveal any beneficial ownership or connected parties to Iran or DPRK. A cross-border fund flow analysis revealed no flows to and from Iran and DPRK via banks or MSBs. In relation to banking flows, it is recognized that the ultimate destination or origin of the funds may not be visible from the Cayman Islands' perspective. Remittances through the Cayman Islands MSBs are consistent with the demographics of the Cayman Islands expatriate community. DPRK's procurement and proliferation networks depend highly on their sanctioned owners to move money internationally through the financial system. Therefore, the Cayman Islands banking system could be misused by various companies within a network attempting to set up bank accounts to give these perpetrators access to US dollars for trade and correspondent banking relationships. Likewise, MSBs can be misused given the rapid transmission of funds.

731. Given this source of potential risk to gain access to the financial system through banks and MSBs, this is rated **medium-high**.

#### *Trust and Corporate Service Providers*

732. In the latest UN Panel of Experts Report (March 2021)<sup>56</sup>, the Panel noted the reliance by DPRK on corporate services providers to facilitate its sanctions evasion activities.

733. On December 2020, there were 545 TCSPs licensed by or registered with CIMA, servicing more than 100,000 clients. Inherent risk data from the TCSP sector revealed

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<sup>56</sup> 4 March 2021 - Final report of the Panel of Experts submitted pursuant to resolution 2515 (2020)

that their client relationships are widespread, including investment funds, funds management, real estate, and technology and telecommunications activities.

734. As the TCSP sector services over approximately 142,290 customers, the threat of sanctions evasion is significant, although inherent risk data did not reveal any beneficial owners of TCSPS or their customers from Iran or DPRK. Vigilant CDD and screening measures to safeguard against sanctions violation is of utmost importance for this sector as a gatekeeper for the financial services industry. TCSPs must carry out sanctions screening of their customers and their respective owners and controllers. The Cayman Islands have an established reporting mechanism for positive matches. The threat of TCSPs being used in sanctions evasion is rated **medium-high**.

#### *Cayman Islands Real Estate*

735. The Cayman Islands Land Registry is within the Department of Lands and Survey Department which manages the lands title register. UNSCR 2321, OP 18, prohibits the use of real estate property owned or leased by DPRK from being used for any purpose other than diplomatic or consular activities. It also prohibits the sale, lease or hires of real estate property by DPRK nationals.

736. Each land transfer and stay of registration is checked against the sanctions list by the Land Registry to ensure that the transferor or transferee is not a designated person/entity. The names of company/entity, director/secretary and any other person responsible for the transfer of Land are checked against the UK's Office of Financial Sanctions Implementation (OFSI) consolidated list and to date, no match has been discovered. In the event, a target match is made, and it appears that the powers of the proprietor to deal with the land are restricted, the Land Registry will suspend the registration process and report to the FRA as soon as practicable. For Cayman Islands legal entities that hold real estate, the 16th July 2021 Nature of Business report<sup>57</sup> provides that 220 entities are listed as being Real Estate Holding Companies. Beneficial ownership information for these entities has been analysed but did not uncover any links to DPRK or Iran. In light of the above, the threat is rated as **medium-low**.

#### *Use of Virtual Assets and New Technologies to avoid the Formal Financial System*

737. In recent years, virtual assets have emerged as a novel method of storing or moving value and making payments. Virtual assets must typically be exchanged to/from fiat currencies before proceeds of crime may be fully integrated into the traditional financial system. VASPs facilitate these exchanges and therefore play a key role in the prevention of ML/TF/PF.

738. As the access to the formal financial system has become increasingly closed to designated persons and entities due to the introduction of various financial sanctions checks, virtual assets may have increased appeal to designated persons. In the latest UN Panel of Experts Report (March 2021)<sup>58</sup>, the Panel noted the DPRK's effort to launder stolen virtual assets through Chinese brokers to acquire fiat currency.

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<sup>57</sup> This is a report generated by the Registrar of Companies on 16<sup>th</sup> July 2021 detailing the nature of business activities that have been reported by Cayman entities.

<sup>58</sup> 4 March 2021 - Final report of the Panel of Experts submitted pursuant to resolution 2515 (2020)

739. Issuances of virtual assets, in particular, have been identified as a potential source of ML/TF /PF risk. Virtual asset issuances have taken place from within the Cayman Islands since 2017; however, there are currently no known cases of issuances having been used for PF or TFS evasion during this period.

740. Given the use of virtual assets as a source of potential threat to evade sanctions, this area is rated **medium-high**.

#### *Cyber-Attacks on Virtual Assets as a Means of Sanctions Evasion*

741. According to the UN Panel of Experts Report of March 2021<sup>59</sup>, the DPRK continues to carry out malicious cyber activities in violation of sanctions, including the targeting of virtual assets and VASPs. The increasing scope and sophistication of cyberattacks allow the DPRK to evade financial sanctions and generate income in ways that are harder to trace and subject to less government oversight and regulation.

742. The Panel's report notes that cyber actors linked to the DPRK continued to conduct operations against FIs and virtual currency exchange houses in 2020 to generate revenue to support its WMD programmes. Specifically, a growing target for DPRK cyber actors is peer-to-peer services and those that do not collect KYC information, including over-the-counter exchange services. The Panel also notes that one Member state reported that from 2019 to November 2020, the total value of the theft of virtual assets to be approximately \$316.4 million.

743. During 2020, the FRA has seen an increase in the number of SARs submitted concerning cybercrime, however, there has been no information to suggest that these cybercrimes were related to the financing of proliferation. Additionally, the CIPS has reported that cybercrimes have been committed in the Cayman Islands; however, there has been no information to suggest that these cyber-attacks were by DPRK or that they were PF-related.

744. With cyber-attacks being an increasingly global challenge, the Cayman Islands is susceptible to cyber-attacks for PF purposes. DPRK actors do not have to be in the jurisdiction to engage or initiate cybercrimes, as these attacks are usually done remotely. Therefore, the risk of cyber-attacks is rated **high** for PF purposes.

#### *IV.2.c. Aircraft and Maritime Sector*

##### *Cayman Islands Shipping Registry*

745. UNSCR 2270, OP 20 and UNSCR 2321, OP 9, prohibit the owning, leasing, operating, or insuring of a DPRK flagged vessel. The Cayman Islands offers an open shipping registry that has potential exposure to such associated threats. As of 31st December 2020, a total of 207 "Cargo Ships" were registered in the Cayman Islands. Of these, 39 are Bulk Carriers, 70 are Chemical Tankers, 19 are Oil Tankers, and 79 are "other cargo ships". Other cargo ships include car carriers, passenger ships and general cargo ships trading worldwide. To qualify as an owner of a Cayman Islands ship, the

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<sup>59</sup> 4 March 2021 - Final report of the Panel of Experts submitted pursuant to resolution 2515 (2020)

owner must come from a country listed in section 4 of the Merchant Shipping Act (2016 Revision).

746. The DPRK (Sanctions) (Overseas Territories) Order 2020 makes it an offence to register a ship from the DPRK. MACI must refuse to register a ship if, based on the information given to it by the Secretary of State or the Governor, or accompanying the application for registration, the ship appears to be a DPRK ship<sup>60</sup>. The Secretary of State or the Governor may direct MACI to terminate the registration of a DPRK ship; a specified ship; a ship for which UNSCR provides for de-registration or de-flagging; or a ship de-registered by a country other than the Cayman Islands. It is worth noting that no owner of a Cayman-registered ship has ever been identified as a designated person.

747. There is also the threat of the Cayman Islands owned vessels being exploited to assist in the evasion of sanctions. DPRK's exports of coal have long represented a significant source of revenue and have been acknowledged by the UN Security Council to have contributed a substantial portion of the funds necessary to advance DPRK's nuclear and ballistic missile programme. Several DPRK companies, whose portfolios include the sale of coal, have also been tied by the UN and the US to the Worker's Party of North Korea, the country's military and its intelligence agencies<sup>61</sup>.

748. For ships not necessarily flagged in the Cayman Islands, but owned by a Cayman Islands legal entity, the General Registry requires an annual confirmation of the activity being undertaken by the entity. In the 16<sup>th</sup> July 2021 Nature of Business report, 791 legal entities are listed as being Marine Vessel Holding Companies. Beneficial ownership information for these entities has been analysed but did not uncover any links to DPRK or Iran. Typologies involving similar setups have however been identified in other international financial centres where foreign-flagged vessels were owned by entities domiciled in other Caribbean countries (British Virgin Islands) that also featured in media and UN Panel of Experts reports.

### Case Study 18

#### Foreign Flagged Ship Owned or Controlled by a BVI Entity

According to the UN Panel of Experts' Report dated 8 September 2021, companies including the British Virgin Islands-registered company, Faith Trade Group Limited, owned a vessel from May 2018. The ship is reported by the Panel to have delivered refined petroleum to the DPRK. The case forcefully illustrates how Caribbean legal entities may own ships associated with sanctioned countries and may be misused for sanctions evasion purposes. In terms of the considerations for the Cayman Islands, there is the threat of Cayman Islands entities owning foreign-flagged ships linked or associated with sanctioned countries that could be used for evasion purposes.

749. In light of the threat of the Cayman Islands owned vessels being exploited to assist in the evasion of sanctions, this is rated as **medium-high**.

<sup>60</sup> A ship is a "DPRK ship" if - (a) the legal title to the ship, or to any share in the ship, is vested in a person connected with the DPRK; (b) a person connected with the DPRK has a beneficial interest in the ship or in any share in the ship; or (c) a person connected with the DPRK is a charterer of the ship on bareboat charter terms.

<sup>61</sup> RUSI Paper – Down and Out in Pyongyang and London – North Korea's Smuggling Networks Using UK Companies (executive summary)

## Maritime Insurance and Reinsurance

750. UN resolution 2321 (2016) prohibits the provision of insurance or re-insurance services to vessels owned, controlled operated or flagged by DPRK. Cayman Islands' international insurance sector is known for its captive insurance sector, mainly healthcare captives, group captives and the jurisdictions growing reinsurance sector. A review of Cayman Islands Insurance data suggests that only 1.21% of insurance services are related to maritime and aviation insurance. As of 2020, there are only 9 providers that offer re-insurance products specific to maritime insurance. All of these providers are supervised by CIMA. There is no information that links the provision of insurance or re-insurance services to vessels owned, controlled operated or flagged from Cayman Islands related to the DPRK or Iran.

751. While no sanctions evasion cases with a Cayman Islands link have been detected, the sanctions evasion risks associated with maritime insurance and re-insurance products has also been highlighted in the UN Panel of Experts Reports. The following case study<sup>62</sup> demonstrates how DPRK's evasive tactics (which allow it to carry on its shipping activities) can affect the insurance industry.

### Case Study 19 - Billions No. 18

In October 2017, a tanker named *Billions No. 18* departed from Yeosu port in South Korea with a stated destination of Taichung in Taiwan. However, shortly after departure, *Billions* turned off its AIS tracking and conducted a ship-to-ship transfer of diesel to a DPRK-flagged vessel, *Rye Song Gang 1*, in violation of UN Security Council resolutions.<sup>63</sup> On 28 December 2017, the UN designated the vessel for its involvement in a violation of UN sanctions requirements.<sup>64</sup> At the time of the violation, *Billions* sailed under a Panamanian flag<sup>65</sup> and was owned by a company named Bunker's Taiwan Group Corporation, registered in the British Virgin Islands. *Billions* were reinsured through reinsurance companies in London, including the vessel's protection and indemnity coverage, which was provided by the West of England P&I Club, located in London.<sup>66</sup> While the sanctions screening software of London-based insurers would have detected *Billions* after its designation, and the vessel's coverage would have been immediately terminated due to the sanctions clause, the policy had already secured insurance coverage, thus enabling the vessel to operate up until the designation. A further investigation by the UN Panel of Experts into the vessel and its ownership reveals that *Billions* was part of a larger network of vessels involved in illicit North

62 Reported in RUSI paper on Underwriting Proliferation- Sanctions Evasion, Proliferation Finance and the Insurance Industry – Emil Dall and Tom Keatinge

63 UN Security Council, 'Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009), S/2018/171, p. 29.

64 UN, 'Security Council Committee Established Pursuant to Resolution 1718 (2006) Designates 4 Vessels Pursuant to Paragraph 6 of Resolution 2375 (2017)', SC/13149, press release, 28 December 2017, <<https://www.un.org/press/en/2017/sc13149.doc.htm>>, accessed 3 July 2018.

65 The vessel has since been renamed Kingsway and was registered under a Palauan flag in December 2017. See Fairplay, 'Taiwan-Based Fishery Linked to Alleged North Korea Fuel Transfers', January 2018; Marine Traffic, 'Billions No. 18', <[https://www.marinetraffic.com/en/ais/details/ships/shipid:420021/mmsi:511647000/imo:9191773/vessel:BILLIONS\\_NO\\_18](https://www.marinetraffic.com/en/ais/details/ships/shipid:420021/mmsi:511647000/imo:9191773/vessel:BILLIONS_NO_18)>, accessed 2 July 2018.

66 Marine Traffic, 'Billions No. 18', <[https://www.marinetraffic.com/en/ais/details/ships/shipid:420021/mmsi:511647000/imo:9191773/vessel:BILLIONS\\_NO\\_18](https://www.marinetraffic.com/en/ais/details/ships/shipid:420021/mmsi:511647000/imo:9191773/vessel:BILLIONS_NO_18)>, accessed 6 July 2018. A registered account is required to view information on the vessel's protection and indemnity coverage.

Korean shipping and trading activities. The sole shareholder of the vessel's owner, Bunker's Taiwan Group Corporation, is Shih-Hsien Chen, a Taiwanese citizen.<sup>67</sup> Chen is also the shareholder of another company, Billions Bunker Group Corporation, registered in the Marshall Islands, which owns and operated the vessel *Billions No. 88*, which has also been suspected of engaging in illicit ship-to-ship transfer activities.

This case demonstrates several challenges for insurance companies: it shows how easily insurers may be caught up in PF activities, even if their clients are not themselves immediately part of proliferation networks.

752. Based on these considerations, it is considered that the threat of maritime insurance and reinsurance is rated as **medium-low**.

#### *Aircraft Ownership*

753. The Civil Aviation of the Cayman Islands is the statutory body responsible for aviation regulatory oversight throughout the Cayman Islands and for aircraft registered in the Cayman Islands that operate globally. The Air Navigation (Overseas Territories) Order 2013, as amended, is the Statutory Instrument of the Cayman Islands and as such is the enabling legislation for the operational control and continuing airworthiness of Cayman Islands registered aircraft. In order for an aircraft owner to be deemed eligible to apply for registration to the Cayman Islands Aircraft Register, the registering owner must meet eligibility criteria under the Air Navigation Overseas Territories Order 2013 as amended. Persons from Iran and DPRK are not eligible for aircraft registration in the Cayman Islands.

754. As of 31 December 2020, there was a total of 286 registered aircraft. During the period January 2017 to December 2020, 156 aircraft were added to the aircraft registry. The beneficial owners of these aircraft were all scanned against the Consolidated Sanctions List to ensure that no registration took place for a designated person, a person acting on behalf of or at the direction of a designated person or owned or controlled (directly/indirectly) by a designated person.

755. For aircraft not registered in the Cayman Islands, but owned by a Cayman Islands legal entity, the General Registry requires an annual confirmation of the activity being undertaken by the entity. In the July 2021 Nature of Business Report, 484 legal entities are listed as being aircraft holding companies. Beneficial ownership information for these entities was analysed but has not uncovered any links to DPRK or Iran. This threat is rated as **medium-high**.

#### *IV.2.d. Other Areas of Potential PF Risks*

##### *Dual Use, Proliferation-Sensitive or High-Tech Goods*

756. UNSCR 1540 OP 3(d) requires countries to have in place effective laws and export controls related to the export and transshipment of controlled dual-use goods as

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67 UN Security Council, 'Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009)', S/2018/171, p. 32.

prohibited by UNSCR 1718 (2006) dual-use goods list and UNSCR 2270 (2016) dual-use goods list.

757. In the Cayman Islands, there are no industries and research centres that produce dual-use and proliferation-sensitive goods and expertise. In the July 2021 Nature of Business Report, no legal entities were listed as being Arms, Defence and Military entities; 153 were listed as Manufacturing entities, and 31 were listed as Other Manufacturing and Industrial Related Activities entities. Beneficial ownership information for these entities has been analysed but did not uncover any links to DPRK or Iran.

758. The exposure of the Cayman Islands to the export and trade in military equipment and “dual-use” goods is relatively limited when compared to that of regions like Asia, North America and Europe. Additionally, the geography of the Cayman Islands makes it unlikely to be used as a transshipment point for dual-use goods to the DPRK or Iran. The threat is rated as **medium-low**.

#### *Workers from DPRK*

759. UNSCR 2375 instituted a ban on the hiring of any new North Korean workers, in December 2017, UNSCR 2397 called on member states to repatriate all North Korean labourers by 22 December 2019, accordingly, the presence of North Korean labourers abroad violates international sanctions. The laws of the Cayman Islands do not allow the employment of workers from DPRK, and all foreign workers must obtain a work permit from Workforce Opportunities and Residency Cayman (“WORC”) to take up employment. As such if a North Korean was to apply for a work permit, they would be denied. A review of the work permit data does not indicate any DPRK nationals employed in the Cayman Islands. This threat is rated as **low**.

### **CONCLUSION**

760. In summary, as proliferation networks and financial channels span across many jurisdictions, there is a challenge for competent authorities, financial institutions and DNFBPs to identify PF and evasion of TFS related to PF.

761. While there is no data or evidence to suggest that proliferation or proliferation financing has or is taking place through or in the Cayman Islands, and no direct PF links were established, the exposure of the financial system when conducting business in the international financial market poses PF risks and therefore the potential threat of breach, non-implementation and sanctions evasion. Cayman Island’s inherent risk rating on PF is thus **medium-high**.

### **IV.3. PF Risk Mitigating Measures**

#### *Mitigating the Risks of a Potential Breach or Non-Implementation of Sanctions*

762. To address any risk of a potential breach or non-implementation of sanctions, particularly as it relates to preventing designated entities and individuals’ access to financial services, and/or funds or other assets, the following measures were taken:

- Implementation of mechanism for freeze without delay,
- Delivery of guidance, outreach, and training to FI and DNFBPs, to promote the awareness of the identification, assessment and understanding of PF Risks. Conducted several outreaches to promote a clear understanding of TFS related to PF obligations,
- Assessment of PF threats,
- Development of an action plan for continued outreach and training, and
- Dissemination of a survey to financial institutions and DNFBPs to test understanding of PF.

### *Legislative Framework*

763. The mechanisms to ensure that financial sanctions imposed by the UN are implemented without delay are: 1) the Proliferation Financing (Prohibition) Act, (2017 revision) (“PFPA”) and 2) an extension of the UK’s sanctions measures via regulations made under the Sanctions Anti-Money Laundering Act 2018 (“SAML”) with modifications to the Cayman Islands by way of Overseas Territories Orders in Council (“OOICs”), implementing UN and UK sanctions. When extended to the Cayman Islands, these OOICs have the force of law in the jurisdiction, a breach of which constitutes an offence for which fines and/or criminal convictions may result.

### *Mechanism for Timely Communication of Financial Sanctions Notices (FSN)*

764. The laws and regulations provide clear obligations to the private sector. Section 2B and 2C of the PFPA address the requirements to freeze funds of designated persons and report to the FRA, respectively. Similar sanctions obligations exist in the Democratic People’s Republic of Korea (Sanctions) (EU Exit) Regulations 2019 as extended by the Democratic People’s Republic of Korea (Sanctions) (Overseas Territories) Order 2020 with modifications, and the Iran (Sanctions) (Nuclear) (EU Exit) Regulations 2019 as extended by the Iran (Sanctions) (Nuclear) (Overseas Territories) Order 2020 with modifications.

765. The Cayman Islands currently has two mechanisms in place for communicating TFS notices related to PF to FIs and DNFBPs without delay. One mechanism, operated by the FRA, provides that all TFS notices are sent to all real estate agents, DPMS, accountants, attorneys, NPOs, competent authorities and anyone who subscribed to receive TFS notices. The other mechanism is by CIMA which sends TFS notices to all CIMA-supervised FIs and TCSPs.

766. The FRA communicates without delay (usually within 1-4 hours), the FSN received from the Office of Financial Sanctions Implementation (OFSI), advising of a change to a sanctions regime. The FRA customized notice is published on the FRA website, and immediately thereafter automatically disseminated by email to all as mentioned above. The FSN provide information on what the recipient must do in the case of an addition, amendment or removal of a person/entity to/from the consolidated list and that the freeze includes any funds which are owned or controlled by designated persons. In addition to the communication of FSN, a script was added to the FRA website to allow anyone to subscribe to receive sanctions notification via e-mail.



767. CIMA has instituted an electronic email system for the timely dissemination of TFS notices it receives from OFSI, directly to approximately 17,300 email addresses. All TFS notices are communicated without delay to CIMA's registrants/licensees within 1-2 hours. The CIMA notices provide information on what the registrants/licensees must do in the case of an addition, amendment, or removal of a person/entity to/from the consolidated list. All TFS notices are also published on CIMA's website. The laws and regulations provide clear obligations on private sectors, such as the Proliferation Financing (Prohibition) Act (PFPA), the relevant Overseas Orders in Council (OOIC), and the AMLRs. In addition, all financial sanctions notices for new and amended updates include obligations for freezing accounts, other funds or economic resources and any funds which are owned or controlled by designated persons. Obligations also include the need to refrain from dealing with the funds or assets or making them available (directly or indirectly) to such persons unless licensed by the Governor and reporting any findings to the FRA.

768. Breaches of financial sanctions constitute a criminal offence. Sections 2 D (1) and 2E (4) and (5) of the PFPA provide for civil and criminal sanctions for failing to freeze and failing to report. The Overseas Orders contain provisions for criminal sanctions for making or dealing with funds or economic resources of a designated person or for their benefit, or failure to comply with reporting obligations.

769. Given the "All Crimes" approach to ML in the Cayman Islands, it must be noted that under section 23A of the PFPA, a person who provides economic resources or is concerned with a PF arrangement where that person knows or suspects or facilitates PF, commits an offence under the POCA. This means that in addition to potential breaches, evasion and non-implementation of TFS for PF are covered.

#### *Mechanisms for Monitoring*

770. Section 4 of POCA provides for the FRA to monitor compliance with TF/PF regulations. Pursuant to section 3 of the PFPA, the FRA also has responsibility for giving directions where actions are to be taken in respect of TFS relating to PF. In addition, the FRA, under section 29 of the PFPA, shall take appropriate measures to monitor persons operating in the financial sector to secure compliance with requirements of any directions given under the PFPA.

#### *Mitigating the Risks of Evasion of Sanctions*

##### *Supervisory and Regulatory Measures*

771. The Supervisory Authorities are also responsible for monitoring compliance with the AMLRs. FIs and DNFBPs must, in accordance with Regulation 5 of the AMLRs, have procedures to ensure compliance with TFS obligations applicable in the jurisdiction; take appropriate measures for making employees aware of the enactments relating to PF and TFS, and provide employees with training about TFS. VASPs are defined as RFB under Schedule 6 of the POCA and are therefore subject to the TFS obligations embodied in the AMLRs.

772. During 2020, CIMA identified TFS deficiencies relating to screening, policies and procedures, and staff training among 64 licensees. This compared with 36 licensees in 2019 where TFS deficiencies were found. DCI also identified four instances of TFS deficiencies relating to the inadequate vetting of clients against sanctions lists. The four deficiencies identified were remedied as the entities, in 2021, had in place the capability to receive and screen TFS data.

773. In 2019, CIIPA found that five firms did not have documented screening procedures for sanctions, while five firms were missing documentation regarding written controls. On an onsite inspection before the COVID-19 lockdown in early 2020, CIIPA found one registrant had deficiencies related to screening payees against the sanctions list. Through remote inspections between July and August 2020, CIIPA identified four firms that had deficiencies in sanctions screenings and required them to remediate those deficiencies within one month. All the identified deficiencies mentioned above have been remedied.

774. In 2020, CARA identified 10 instances in which law firms had failed to have appropriate procedures in place to ensure compliance with TFS; these failures related primarily to lack of sufficient screening and staff training. All the deficiencies identified were remediated within 60 days.

#### *Supervision of Other Areas of Vulnerability*

775. *Maritime Registration and Insurance:* The DPRK (Sanctions) (Overseas Territories) Order 2020 makes it an offence to register a ship on behalf of the DPRK. As per MACI's operational procedures, it keeps a list of all cargo ships registered with the Cayman Islands. MACI actively monitors the location of all its registered ships through the Long-Range Identification and Tracking (LRIT) System and utilises several actions (such as alerting the FRA of suspected breaches and automatic deletion in the case of the DPRK sanctions) in the event breaches are detected. There are several measures in place within MACI to detect any breach of a Sanctions Order and these are being incorporated into the formal corporate policy.

776. International maritime and cargo insurance are generally procured by CSPs or shipping agents on behalf of their clients. CSPs and insurance providers in the Cayman Islands are subject to licensing and supervision by CIMA. Protection and indemnity ("P&I") cargo ships registered in the Cayman Islands are required to carry insurance under certain International Conventions and this insurance must be in place before registration. The permitted insurers are all members of the "International Group of P & I Clubs". All insurers in the "International Group" conduct extensive checks on all ships and ship owners against the full range of UN, EU and US sanctions before offering insurance. It is also a common/required condition of insurance that any breach of a sanctions order immediately terminates the ship's insurance.

777. *Beneficial Ownership Data on Ships:* To bridge the informational gap on holders of International Maritime Organization (IMO) Registered Owner Numbers who are registered in the Cayman Islands, an information exchange data agreement was made between MACI and the commercial company IHS Markit, which administers this scheme on behalf of IMO. This information identifies the Caymanian companies that own ships

registered outside the Islands. This further supports mitigating measures for General Registry in terms of monitoring those companies that own ships against their nature of business information.

778. *Aircraft Ownership*: The Finance and Compliance Department of the Cayman Islands Civil Aviation Authority conducts due diligence on clients of the Cayman Islands Aircraft Registry in accordance with the AMLRs. For an aircraft owner to be deemed eligible to apply for registration to the Cayman Islands Aircraft Register, the registering owner must meet the following eligibility criteria under the Air Navigation Overseas Territories Order 2013: (a) The Crown in right of Her Majesty's Government in the United Kingdom or in right of the Government of the Territory; (b) British Nationals, British Overseas Territories Citizens and British protected persons; (c) Persons ordinarily resident or domiciled in the Territory; (d) Bodies incorporated and having a registered office in the Territory or in the United Kingdom. Each new aircraft registration application must be accompanied by due diligence documents relating to the beneficial owner(s).

#### *Awareness of the Identification of TFS Related to PF*

779. *Outreach and Guidance*: Since the 2015 MER, supervisory authorities and the Sanctions Coordinator have provided outreach sessions, as well as the issuance of guidance on PF. These have been delivered to the private sector to promote and enable compliance to help FIs and DNFBPs in identifying, disrupting, and preventing WMD proliferators from accessing the Cayman Islands financial systems.

780. *Supervisors* have updated their guidance to include TFS related to PF and *have* also published outreach videos and audio slides on their websites related to the identification of TFS related to PF. Further, through public-private sector coordination, the Cayman Islands Government in conjunction with Cayman Finance created an eLearning Platform, where recorded video courses on all things AML/CFT/CPF are provided to the public on the Cayman Finance website. The FRA has also published the Compliance Reporting Form to be used by persons for reporting a designated person, frozen assets and any sanctions breach.

781. Although there is no delay in communication of designations and there are clear obligations on FIs and DNFBPs in legislation, there may be a failure on the part of FIs and DNFBPs to adopt adequate policies and procedures to address their PF risk. For example, as outlined above, the risk of potential breach may materialise through weak customer onboarding procedures and ongoing monitoring; lack of staff training; ineffective risk management procedures; lack of proper sanctions screen systems; or irregular or inflexible screening procedures all of which are monitored and supervised by the<sup>68</sup>relevant supervisor.

#### *Crime Fighting Abilities Related to Proliferation*

782. Although there is a small amount of direct experience dealing with PF-related offence within the ODPP, the levels of expertise amongst financial analysts, investigators

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<sup>68</sup> FATF (2021), Guidance on Proliferation Financing Risk Assessment and Mitigation, FATF, Paris, France, <https://www.fatf-gafi.org/publications/financingofproliferation/documents/proliferation-financing-risk-assessment-mitigation.html>

and prosecutors in the detection of illicit PF activity in general, is limited by the fact that such offence has not yet been encountered in the course of local investigations. In light of the limited pool of local specialist forensic accountants/investigators with PF training, law enforcement agencies are likely to be required to engage the assistance of experts from outside the jurisdiction should such offences are to be investigated. Specialised training is limited in the areas of PF for LEAs and needs to be improved to have an impact in identifying and investigating PF. However, the establishment of the Financial Crime Focus Group may increase capacity building and the pooling of knowledge and experience to assist LEAs in better identifying illicit PF activities.

783. **Conclusion:** The mitigating measures in place for PF are strong. The Cayman Islands has all the necessary measures in place, including heightened awareness and adequate human and technical resources to contend with the threat of PF and TFS related to PF.

## CHAPTER V – OVERARCHING RISK TOPICS

### V.1. NPOs

784. There is little specific or relevant evidence of TF abuse of NPOs in the Cayman Islands. All possible sources for terrorist financing abuse of NPOs have been reviewed and analysed. No investigations, prosecutions or suspicions of TF abuse of NPOs have been reported by authorities. Similarly, there have been no suspicions or concerns generated from foreign jurisdictions or international requests for mutual legal assistance. Whilst the possibility of undetected abuse of the sector cannot be discounted, the qualitative and quantitative evidence that was available for review suggests that there has been little or no TF abuse of NPOs in the Cayman Islands.

785. Still, in line with international requirements, the Cayman Islands in 2019 assessed the risks associated with the NPO sector and in a first step determining which subset of NPOs in the Cayman Islands fall under the FATF's functional definition of NPOs, which covers any "legal person or arrangement or organization that primarily engages in raising or disbursing of funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works." As such, legal persons or arrangements or organizations set up for charitable purposes but not having the raising or disbursing of funds as the main purpose would not be covered by the FATF standards.

786. The Cayman Islands is a common law country with freedom of association. There is no restriction on citizens forming associations for legal purposes. The NPO Act establishes that charitable associations need to register if they are *established primarily for the promotion of charitable, philanthropic, religious, cultural, educational, social or fraternal purposes, or other activities or programs for the public benefit or a section of the public within the Islands or elsewhere; and solicit contributions or raise funds from the public or a section of the public within the Islands or elsewhere.*"<sup>69</sup>

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69 S.2 NPO Act, as amended in 2018.

787. The scope of the NPO Act is very similar to the definition of NPOs by FATF. Accordingly, all those Cayman Islands NPOs covered by the FATF definition are required by law to register with the Cayman Islands General Registry. 536 NPOs in the Cayman Islands fall under the FATF definition of NPOs. FATF requires that within the subset of NPOs that fall within the FATF definition, jurisdictions “*use all relevant sources of information, in order to identify the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse.*”<sup>70</sup>

788. An analysis of statutory registration and annual return data revealed that of the 536 NPOs on the register in May 2021, 341 were primarily service provision NPOs, and 195 were primarily expressive. The analysis of annual returns revealed gross total revenue of \$114,908,960.18 and gross off-island remittances of \$8,285,915.15, equivalent to 7.2% of total gross NPO revenue. Analysis of annual returns found 3 NPOs remitted funds to a high-risk terrorism jurisdiction.<sup>71</sup> In conclusion, 9 NPOs were identified in 2019 to carry a high risk based on the following criteria:

- a. NPOs that send or receive funds to/from high-risk jurisdictions;
- b. NPOs that are managed or controlled by foreign national(s) from a high-risk jurisdiction;
- c. NPOs that have no clear link with the Cayman Islands (i.e., the source of income, activities/expenditure and control of the NPO are all predominantly off-island).

789. Of those, one NPO was subsequently struck by the Registrar for non-compliance and two no longer operate post the COVID-19 pandemic lockdown. There are now only 6 high-risk NPOs. Where funds are sent to high-risk jurisdictions, the individual amounts per NPO were below one thousand dollars and the money was sent via the regulated banking sector as well as regulated correspondent banks based in the USA. Based on this, a ‘low’ assessment of inherent risk is attributed to the NPO sector.

### *Mitigating Measures for NPOs*

790. NPOs as defined by s.2 of the NPO Act (as amended) are required to register if they wish to solicit contributions or raise funds from the public within the Cayman Islands or elsewhere.<sup>72</sup> Registration is with the General Registry.<sup>73</sup>

791. The NPO Act requires the Registrar to, inter alia, ensure that all NPOs have appropriate internal controls in place, including an appropriate system to identify conduct that may involve the financing of terrorism. In addition, the Registrar is empowered to periodically assess the characteristics and activities of the NPO sector to identify vulnerabilities associated with TF. The Registrar has implemented a targeted risk-based supervision methodology.

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70 Criterion 8.1(a) of the FATF Methodology.

71 The *Cayman Islands Terrorist Financing Risk Assessment* classified jurisdictions into ten tiers of high-risk of terrorism based on publicly available information such as the FATF list of high-risk and other monitored jurisdictions and the Global Terrorism Index 2018.

72 s.6.(1) of the NPO Act. Failure to register is an administrative offence punishable by a fine on the controller of the NPO (s.16(a)). Certain NPOs are exempted from the registration requirement (s.6(2)).

73 *ibid*, s.4.1.(a) and s.5(1)

792. For registered NPOs, the requirements on the provision, maintenance and publication of accurate and up-to-date information on NPOs is set out in the NPO Act and the NPO Act Implementing Regulations. Each registered NPO must submit an annual return within six months of its financial year-end. The annual return requires confirmation of details collected at registration, a balance sheet, an income statement, data on funds sent overseas (including the ten countries which received the most funds), the ten largest sources of funds, the ten largest applications of funds, and the ten largest property sales or purchases. Financial statements should cover the following: income and expenditure, all property transactions, all sums raised through fundraising, non-monetary transactions, and a balance sheet (record of assets and liabilities, and any other prescribed information).<sup>74</sup> NPOs with an income over \$250,000 and which remit 30% or more of their gross income overseas must have a review done by a licensed accountant following international auditing standards.<sup>75</sup> If it is deemed necessary, the General Registry may also require any other registered NPO to have a review done, although this power has not been used to date.<sup>76</sup> Copies of reviews must be provided to the General Registry.<sup>77</sup>

793. Finally, each Registered NPO must within 30 days notify the Registry of any changes to specified information, which covers changes to its name, objectives or activities,<sup>78</sup> or when an NPO ceases operations or ceases to exist.<sup>79</sup> To date, the Registrar has processed and approved more than 200 notifications of changes.

794. The General Registry currently has five posts engaged in NPO oversight along with an Assistant Registrar. The General Registry is in the process of hiring four additional compliance officers whose tasks will also include NPO oversight.

795. Between January 2019 and May 2021, the Registrar conducted 89 outreach sessions to NPOs. Topic covered included terrorist financing in the NPO sector, capacity building, corporate governance, financial management, and internal controls. The government launched the first of a series of TF-specific outreach events in September 2019, targeted at higher risk NPOs (i.e., those that operate overseas).

## V.2. Legal Persons and Arrangements

796. The corporate sector in the Cayman Islands is large, with approximately 140,000 companies and partnerships. Most are formed either as exempt companies or ELP and do not carry on domestic business. The most frequent uses for all types of companies that carry on business outside of the Cayman Islands are holding companies or businesses related to the investments funds industry (either as investment funds, general partners, or investment advisors or managers).

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<sup>74</sup> *ibid*, s.12.(1).

<sup>75</sup> *ibid*, s.12.(2).

<sup>76</sup> *ibid*, s.12.(3).

<sup>77</sup> *ibid*, s.12.(5).

<sup>78</sup> *ibid*, s.7(5).

<sup>79</sup> *ibid*, s.7(6).

797. The Cayman Islands has implemented good measures to mitigate the risks of exempt companies and limited partnerships. However, different mitigating measures apply to foreign companies and generally, these measures were found to require improvement.

798. The domestic corporate sector is composed primarily of ordinary resident companies and general partnerships. The customer base is primarily local, and transactions are carried out face to face with residents. The mitigants were found to be satisfactory for ordinary companies but weak for general partnerships, as there is no registration system for these types of partnerships.

799. The trusts sector was rated high risk on all the relevant risk factors, given the lack of data about the number of trusts established under Cayman Islands law, the potential for misuse of these instruments, and the wide geographic base of settlors and beneficiaries. Mitigating measures for the trust sector need to be improved.

Table 39: Summary of the Risk Ratings for Each Type of Legal Entity or Arrangement

	Ordinary- Resident	Ordinary Non- Resident	Exempt	LLC	Foreign	Trust	Foundation	General Partnership	(E)LP
Inherent Risk	ML	MH	H	MH	MH	H	MH	ML	H
NSC <sup>80</sup>	ML	ML	H	MH	MH	H	ML	ML	H
Customers	ML	H	MH	H	MH	H	H	ML	MH
Purpose	ML	MH	MH	MH	MH	H	H	ML	MH
Mitigants	Sat	Sat	Good	Good	Poor	Poor	Good	Poor	Good
Residual Risk	ML	MH	MH	ML	MH	H	ML	ML	MH

#### V.2.a. ML Threats

800. Of the SARs filed in 2019 and 2020, 1380 related to various types of companies and partnerships formed in the Cayman Islands. 340 of those SARs related to alleged fraud, 315 to general suspicious activity, and 284 to tax evasion. Local companies

<sup>80</sup> Nature, Size and Complexity

represent approximately 5% of all companies and partnerships in the Cayman Islands and are slightly over-represented in the SAR filings.

801. The largest single category of corporations featuring in SARs in 2019 and 2020 were investment funds and their related structures (for example, their general partners), which at 21% in 2019 and 30% in 2020 is consistent with the fact that investment funds and related structures represent approximately 40% of exempt limited partnerships and exempt companies.

802. In relation to trusts, out of 8695 SARs filed with the FRA for the years 2017-2020, 175 related to a trust structure, of which 96 related to a Cayman Islands trust. This represents a very small proportion of all SARs filed. In 40 cases, tax evasion was alleged, while fraud was alleged in 21 cases.

803. Of the 55 criminal investigations conducted by RCIPS/CIBFI between April 2019 and December 2020, two legal entities were considered as suspects and 26 legal entities were suspected of having been used to facilitate the suspected offending. Of the 2 investigations where a legal entity was considered a suspect, 1 case has been closed with no action against the legal entity. The other case is ongoing. Both legal entities were exempt companies. The remaining legal entities suspected to have acted as facilitators include 2 SEZ Companies, 1 foreign company, 19 other exempt companies and 2 ordinary companies. The range of predicate offences includes tax evasion, fraud, corruption, theft and TF. Law enforcement authorities have sometimes faced difficulties with obtaining certain information from exempt companies, as the legislation is not always clear on the type of documentation required to be maintained in the Cayman Islands, and certain documentation that would be fundamental in an investigation is not required to be kept on Island.

804. From international counterparts, between 2015 and 2020, a total of 133 incoming criminal mutual legal assistance (MLA) requests were received by the ODPP, of which 42 involved a total of 55 Cayman Islands legal entities. 37 of those legal entities were exempt companies, 6 were ordinary companies, 2 were limited partnerships and 1 was a non-resident company. The most prominent predicate offences identified in the MLA requests were fraud, corruption, tax evasion, and organized crime, with the remaining number of cases not indicating the underlying predicate crime.

### *Overview Company*

#### *Types of Legal Arrangements*

805. The Cayman Islands' corporate landscape allows for legal entities to be established as an ordinary company or an exempt company under the Companies Act; a limited liability company under the Limited Liability Companies Act; or a Foundation under the Foundation Companies Act. Foreign companies may be registered in the Cayman Islands, but they derive their legal personality from the laws of the country in which they were set up.

#### *Ordinary Companies*

806. Ordinary Companies established under the Companies Act may be categorized



into resident and non-resident ordinary companies. Resident ordinary companies may carry on business in the Cayman Islands and are typically used to operate local businesses and commerce. Non-resident ordinary companies must limit their business to activities outside the Cayman Islands and may only carry on business in the Cayman Islands incidental to their overseas business.

#### *Exempt Companies*

807. Companies may apply to be registered as an exempt company if they intend to carry out business activities mainly outside the Cayman Islands. The reference to “exempt” means being exempt from future taxes in the Cayman Islands for 30 years. Various sub-types of exempt companies exist, including the limited duration exempt company and the segregated portfolio company.

#### *Limited Liability Companies (LLC)*

808. LLC reflects many of the key features of the Delaware Limited Liability Company Act. LLCs carry out business mainly outside the Cayman Islands.

#### *Cross-Cutting Company Types*

809. Cross-cutting types of legal entities are the SEZ Company, NPOs, and the Foundation. An LLC or exempt company may apply for the status of SEZ Company. The risks of the SEZ are discussed in Chapter V.1. NPOs are discussed in chapter V.5.

810. Foundations under Cayman Islands law are modelled after the civil law foundation in civil law countries. Foundations can be established for any lawful purpose, whether commercial, charitable or philanthropic or private. Foundations have a separate legal personality. Unlike other types of companies, foundations are not required to have members.

#### *Partnerships*

811. There are currently four types of partnerships under Cayman Islands law.

812. The **General Partnership** (GP) is an arrangement between two or more persons carrying on a business together to make a profit. The general partnership does not need to be registered in the Cayman Islands but exists based on *de facto* arrangements. All partners remain equally responsible for the debts of the partnership.

813. The **Limited Partnership** (LP) is available in cases where at least one or more general partners and one or more limited partners are involved. An **Exempt Limited Partnership** (ELP) under the Exempt Limited Partnership Act is available in cases where a limited partnership intends to conduct business only outside of the Cayman Islands. The word “exempt” refers to an exemption from future taxes for 50 years. In a limited partnership, one or more general partners will be liable for the debts of the partnership. A general partner may be a body corporate incorporated in any jurisdiction, but if it is incorporated overseas, it must register in the Cayman Islands as a foreign company or partnership and must have a registered office in the Islands. Only general partners of limited partnerships may make decisions related to the management of the partnership. Limited partners are only liable for the amount they have invested. Limited partnerships

and exempt limited partnerships must register with the General Registry. In all three types of partnerships, a partner may be a body corporate.

814. The **Limited Liability Partnership** (LLP) is the only partnership that has a distinct legal personality. The LLP offers limited liability status to all of its partners. The LLP, rather than the partners, is liable for any debts or losses of the LLP. LLPs must register with the General Registry.

815. In addition, different types of **trusts** can be established in the Cayman Islands, including the classic trust arrangements in all its variations (express, discretionary, revocable trusts etc.), exempt trusts, unit trusts and STAR trusts. There is no trusts registry in the Cayman Islands but the exempt trust, which has no beneficiaries that are resident or domiciled in the Islands, may register with the General Registry.

#### *Nominee Arrangements and Bearer Shares*

816. Bearer shares have been prohibited since 2016. Bearer shares issued before 2016 had to be converted into nominal shares to maintain their legal validity.

817. Nominee shareholder arrangements are allowed and are common market practice in the Cayman Islands, especially during the incorporation stages. Banks and custodians often use nominee arrangements on behalf of their clients for ease of administration. Nominee shareholders offer administrative convenience for persons with complicated structures that need to be varied from time to time. This allows service providers to act quickly without having to redo multiple documents and get multiple signatures from clients. Approximately 1900 companies that are clients of TCSPs use nominee shareholder services. Entities that provide corporate nominee shareholder services must be licensed by CIMA. There are 22 entities licensed under the BTCA and 30 under the CMA to provide nominee shareholder services. Some regulated entities can provide nominee shareholder services through being exempted from the CMA if they are regulated under another regulatory Act, such as Mutual Fund Administrators under the Mutual Funds Act.

818. Formal nominee shareholders are subject to the AMLRs. They must carry out full due diligence on their client, including its beneficial owner. However, the company's register of members will show the nominee shareholder as the registered legal owner of the shares, often using an internal identifier.

819. It is not mandatory for nominee shareholders to disclose their status to anyone with whom they enter into a business relationship nor to the Registrar of Companies. Nominees are not required to identify the nominator or the beneficial owner of the arrangement. As a result, entities with which the nominee shareholder enters into a business relationship may not know the existence of such nominee arrangement, and therefore be able to consider such factors when they are identifying the beneficial owner of a company. Entities will therefore be required to probe that possibility at the start of the business relationship, which requires these entities to have robust CDD procedures. CIMA's Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands offer guidance to all financial services providers on CDD and dealing with nominee shareholders.

820. Informal nominee arrangements have little commercial utility, as they are difficult to prove and enforce. However, they might be attractive to criminals who seek to disguise their ownership of assets.

821. Nominee directors are not permitted by law in the Cayman Islands, as directors must have unfettered discretion and act in the best interests of the company<sup>81</sup>. While there is no specific legal provision on this issue, a Grand Court decision clarified that such arrangements are not legal based on the interpretation of the Companies Act.

822. Corporate directors are permitted in the Cayman Islands, but such services may only be offered by licensed TSPs or CSPs, or by entities licensed under the Director Registration and Licensing Act. Corporate directors must appoint at least two natural persons to their board of directors.

### *Mapping of the Sector*

823. The Cayman Islands' corporate sector includes 113,182 companies and 32,872 partnerships registered as of March 31, 2021, with the majority of companies formed as Exempt Companies. The number of companies has been growing slowly but steadily since 2016.

Table 40: Types and Number of Companies registered with the Registrar

<b>Exempt</b>	<b>Ordinary Resident</b>	<b>Non- Resident</b>	<b>Foreign</b>	<b>LLC</b>
<b>93,836</b>	7,558	2,758	5,578	3,442

824. Most partnerships registered in the Cayman Islands are Exempt Limited Partnerships, as shown in Table 40. The number of Exempt Limited Partnerships has grown approximately 10% per year since 2016. General partnerships do not have to register with the Registrar.

Table 41: Types and Number of Partnerships Companies registered with the Registrar

<b>Limited</b>	<b>Exempt Limited</b>	<b>Foreign Limited</b>	<b>Limited Liability</b>
<b>19</b>	31,952	917	3

### *Inherent Risks Ordinary Companies*

825. Nature, Scale and Complexity: There are 7292 Ordinary Resident Companies registered with the Registrar of Companies. 4176 ordinary companies are set up to conduct domestic business via a trade and business license issued by the DCI. The owners of most ordinary companies are nationals of the Cayman Islands, given the legislative

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81 Weaving Macro Fixed Income Fund Limited v. Peterson and Ekstrom, [2011 (2) CILR 203]

requirement that at least 60% of the shares of each local business must be owned by a Caymanian. Exemptions are available but are rarely granted, with the number of operational entities under the Local Companies (Control) Act (2019 Revision) as of December 2020 amounting to 224.

826. *Customer Risk:* Most customers are Cayman Islands residents. Some exposure to international clients exists for ordinary companies through the tourism sector (e.g., for retailers), however, such transactions would still be face to face and likely for small monetary values. Ordinary companies holding a trade and business license as a real estate agency or brokerage have greater international exposure and transactions of greater monetary value.

827. *Company Purpose:* Ordinary resident companies typically operate businesses in the Cayman Islands with a physical presence and based on a trade and business license or a license by CIMA<sup>82</sup>, and cater to the domestic economy. Approximately one-quarter of the companies that hold a TBL in the Cayman Islands are cash-intensive businesses that are not RFB, including retailers (excluding jewellers). The next two largest categories are building contractors and building trades, which due to their nature of requiring face to face performance of services, are less vulnerable to being misused for ML. In conclusion, ordinary resident companies have a medium-low inherent risk of being misused for money laundering.

#### *Inherent Risks Exempt Companies*

828. *Nature, Scale and Complexity:* With 93,836 entities, the Exempt Company subsector represents 87% of all legal entities formed in the jurisdiction. Exempt companies carry out business solely outside the Cayman Islands. Exempt companies can be set up quickly and easily, and are often set up within complex, multi-layered structures catering to shareholders and investors in many jurisdictions. The top 10 countries of residence of the beneficial owners of exempt companies that are not CIMA regulated companies are China, the United States, Hong Kong, United Kingdom, Canada, Brazil, Taiwan, Cayman Islands, Singapore, and the United Arab Emirates.

829. *Customers:* TCSPs reported that for their clients that are not Ordinary Companies, these companies operated across 148 different countries, with over one third in the United States.

830. *Company Purpose:* Approximately 40,000 exempt companies have classified themselves as “investment funds” for the purpose of the International Tax Co-operation (Economic Substance) Act (2021 Revision). This includes approximately 9,000 exempted companies that are regulated by CIMA as mutual funds or as private funds. Almost 7,000 exempt companies are general partners for a partnership.

831. Almost half of the exempt companies report that their nature of business is to be a holding company. While these companies do not themselves have operations, they often head a group of operating companies. There is no visibility into the activities of

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<sup>82</sup> 340 CIMA licensees are Ordinary Companies, which are not required to obtain a TBL by virtue of being regulated by CIMA. In addition, some businesses operating in other regulated fields, such as medical and similar professions, are not required to obtain a separate trade and business license from the DCI.

these operating companies, and therefore into the risk they pose. In addition, approximately 4,000 non-fund exempt companies are regulated by CIMA.

### **Typology 1 - Use of the Cayman Islands Corporate Structures**

A Cayman Islands bank and two TCSPs provided services to a recognized international conglomerate (IC), who had been a client for many years. Their ongoing monitoring revealed publicly available information that the IC had engaged in corrupt practices. Investigations in multiple jurisdictions involved allegations of using offshore companies to pay bribes to obtain contracts, accusations of fraud and overpricing contracts.

The reports disclosed information about Cayman Islands entities ultimately owned and controlled by the IC, as well as the ownership structure and the private banking activities of such entities.

The profile of the entities identified in the reports raised the possibility that they could have been indirectly involved in the allegations against the IC. Information about exempt Cayman Islands entities ultimately owned and controlled by IC, their ownership structure, and the information about bank accounts of such entities were disclosed to the RCIPS and to overseas financial intelligence units in jurisdictions with relevant investigations for intelligence purposes.

832. Given the large size of this sub-sector, the number of jurisdictions in which exempt companies operate and their use in complex structures, the inherent risk of exempt companies is **high**.

### **The Cayman Islands Investment Funds Sector**

The Cayman Islands is one of the premier jurisdictions for investment fund domiciliation. Whilst funds are not captured in the FATF's definitions of Financial Institution or DNFBP, given the scale and importance of funds to the Cayman Islands economy, the Cayman Islands deems it important to understand the inherent risks posed by this sector.

As of 31 December 2020, there were 13,216 private funds approved under the Private Funds Act and 12,226 mutual funds approved under the Mutual Funds Act. As of the end of 2019, mutual funds had a total asset value of U\$8.1 trillion and a Net Asset Value of U\$4.2 trillion. Fund assets are increasing steadily, with an approximate increase in total assets of 10% between 2018 and 2019.

The investment funds sector is comprised of the following types and numbers of funds (as of March 31, 2021):

- Registered Funds - 8,134
- Master Funds - 3,077
- Administered funds - 286
- Licensed funds - 58
- Limited investor funds - 670
- Private Funds - 13,219

The main differences between the types of funds are investor eligibility (e.g., number of investors, retail investors, high net worth institutions and individuals) and fund structure (closed-ended or administered by a local administrator). Mutual Funds can be established as a company (most often, an exempt company), a partnership or a unit trust.

As most funds are not staffed, they engage multiple service providers, including directors or trustees, investment managers, auditors, administrators, and custodians. This results in increased oversight of the activities in the fund. Directors of mutual funds must be registered with CIMA under the Director Registration and Licensing Act. Funds must have a local, CIMA- approved auditor to sign off on their audited financial statements annually.

More than half of mutual funds are managed by investment managers in the United States. Other important jurisdictions for managers are the Cayman Islands and the United Kingdom. A discussion of the sectoral risk for investment managers in the Cayman Islands can be found in Chapter 11.2.c.

Almost half of the Mutual Funds engage a registrar and transfer agent in the Cayman Islands, with the United States and Ireland being other important jurisdictions. Administrators performing registrar and transfer agent functions are responsible for onboarding investors to a fund and thus are important AML/CFT gatekeepers. For a discussion of the risks in the Mutual Fund Administration Sector see Chapter 11.2.c.

CIMA receives information on the jurisdiction of an investor who holds 10% or more of the net asset value of the fund. None of the top five locations where investors hold 10% or more of the NAV of the fund are high-risk jurisdictions for AML/CFT. However, there are 105 jurisdictions where at least one investor owns more than 10% of the fund, making the funds' sector very geographically diverse.

Most registered funds cater to institutional and HNWI, as the minimum initial investment for most of these funds is above \$100,000, with almost half of registered funds requiring an initial minimum investment of \$1 million or more. Registered funds cater mostly to institutional clients, such as pension funds, investment banks and, at times, HNWI.

More than half of fund investments are made in securities issued in the United States (primarily long-term fixed income instruments) and in Cayman Islands Master Funds.

Funds can be set up using complex structures, including segregated portfolio companies, funds of funds, master funds and funds that have several sub-funds. The flow of funds related to investment funds is cross-border, often involving multiple parties in many jurisdictions.

All regulated funds must appoint AML Officers pursuant to the AMLRs, who ensure that the fund complies with the Cayman Islands' AML/CFT regime.

### *Inherent Risks LLCs*

833. *Nature, Scale and Complexity*: This sub-sector remains small, representing only 2.4% of all legal entities in the Cayman Islands.

834. Company Purpose: Approximately one-third of LLCs are holding companies. Another frequent use for LLCs is to be a general partner in a partnership. Approximately 250 LLCs are regulated by CIMA, most of them being either investment funds or SIBL RPs. No data is available on the customers of LLCs. The use and inherent risks associated with this type of legal entity are largely the same as exempt companies. However, due to the small size of this sub-sector, the inherent risks of Cayman Islands LLCs are medium-high.

#### *Inherent Risks Foreign Companies*

835. Nature, Scale and Complexity: There are 5578 foreign companies registered in the Cayman Islands (representing approximately only 5% of the companies in the Companies' Register). Most foreign companies are established as LLCs in another jurisdiction. Approximately three-quarters of these foreign companies were incorporated in the United States, which is not a high-risk jurisdiction. The second-largest jurisdiction of incorporation is Israel, followed by Canada and the BVI.

836. Customers: The customers of the foreign companies that are general partners are funds and their clients.

837. Company Purpose: Approximately 640 foreign companies are General Partners for a CIMA-regulated investment fund. Foreign companies are also often used as holding companies. In addition, approximately 148 foreign companies are regulated by CIMA.

838. The use and the risks associated with this type of legal entity are the same as exempt companies but due to the small number of such companies, the inherent risk of foreign companies is considered medium-high.

#### *Inherent Risk Non-Resident Ordinary Companies*

839. Nature, Scale and Complexity: There are only 2,758 Non-Resident Ordinary Companies. Ownership and control structures are in most cases presumed to be international.

840. Customers: Given that these companies do not operate in the Cayman Islands, their customer base is international, but no data is accessible on the composition of their customer base.

841. Company Purpose: Non-resident ordinary companies are not permitted to conduct business in the Cayman Islands but are permitted to own land in the Cayman Islands. Many non-resident ordinary companies are holding companies for securities, land, or other holdings. There is no visibility into the underlying activities of the holding company and its group. A small number indicates that their main business is investment management.

842. Given the small size of the subsector but the limited information available on ordinary non-resident companies, the inherent risk of such companies is Medium-High.

### **Inherent Risks Partnerships**

#### *General Partnerships*

843. Nature, Scale and Complexity: The number of General Partnerships in the Cayman Islands is not known, as General Partnerships are not required to register with the ROC.

General Partnerships are frequently used to structure professional services firms. For example, there are 18 law firms, registered with CARA, formed as a general partnership and 30 accounting firms. The owners of most general partnerships are nationals of the Cayman Islands, given the legislative requirements for conducting local business.

844. Customers: General partnerships cater primarily to Cayman Islands residents. Some exposure to international clientele exists for general partnerships through the tourism sector (e.g., for retailers) and professional services firms. The cash intensity of some businesses still poses some inherent risks for such businesses being abused for ML, as seen in the below typology.

845. Purpose: The DCI issued TBLs to 237 general partnerships to operate local businesses: 51 to retailers, 31 for contractors and 19 for other building trades. The next largest categories of business include restaurateurs, event planners, transportation, and janitorial services, each with fewer than 15 TBLs.

846. General partnerships display a medium-low inherent risk of being misused for ML.

#### **Typology 2 – Misuse of a General Partnership Conducting Domestic Business**

Law Enforcement-led operations at a small retail store for clothing and small electronics resulted in the recovery of drugs, receipt books/tickets indicative of lottery and a large amount of cash in various denominations. Several persons were arrested including one of the business partners. The investigation revealed that the business has two partners and had been in operation for over a year. “Partner A” obtained the TBL and “Partner B” the Lease for the business. Partner A was responsible for the daily operations and Partner B for all other aspects of the business. The business had a very small amount of inventory of clothing and small electronics and employed three or more persons in various roles. Financial investigation revealed that the business had not established any relationship with any FI or MSB. All business transactions were conducted using cash.

#### *Limited Partnerships/Exempt Limited Partnerships*

847. Nature, Scale and Complexity: Limited partnerships and Exempt Limited Partnerships must register with the ROC. There are 19 LPs and 31,952 ELPs in the Cayman Islands. These partnerships have complex structures which may involve several layers. Each partnership must have at least 1 general partner (which is likely a corporate entity or another partnership) and several limited partners (which are often companies or partnerships). The management of LP/ELPs is separated from the ownership, as by law, the GP makes all decisions relating to the partnership (to the exclusion of limited partners) and limited partners are the owners of the investments in the structure.

848. Customers: Customer risk is similar to the risks faced by funds, given that the majority of LPs and ELPs are connected to funds. Transactions are generally not carried out face to face. Transactions are cross-border and may involve multiple parties and jurisdictions.



849. *Partnership Purpose:* Most LPs and ELPs are connected to the investment funds sector. Approximately 23,000 ELPs have classified themselves as “investment entities” for reporting under the Tax Information Authority (International Tax Compliance) (United States of America) (Amendment) Regulations (2021 Revision) and/or Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations (2021 Revision) (“CRS”). Approximately 14,171 LPs and ELPs are regulated by CIMA, the majority of which as private funds or registered funds<sup>83</sup>. In addition, almost 2,000 ELPs are holding companies.

### Typology 3 – Misuse of Cayman Islands Limited Partnership

A Cayman Islands Corporate Services Provider acted as the registered office for several Cayman Islands entities where the applicant-for-business is a sovereign investment fund. One of those entities is a Limited Partnership that involves numerous other investors with multiple or complex layers of ownership. Recent publicly available information about the ultimate beneficial owner of an investor in the Limited Partnership raised suspicions that the Cayman Islands entities may be holding criminal property. This information suggested that the ultimate beneficial owner was being investigated in other countries for an international conspiracy to launder funds misappropriated from a sovereign investment fund.

Further research by the FRA identified that the Limited Partnership and the investor had been identified as the owner of assets subject to a civil forfeiture complaint in an overseas jurisdiction. The civil forfeiture complaint sought the recovery of more than \$1 billion in assets. The ownership information disclosed in the SAR, together with the activities described in the civil forfeiture complaint, suggest that the funds invested into the Limited Partnership were proceeds of the alleged diversion of funds. This information was disclosed to the RCIPS and to financial intelligence units in several jurisdictions.

850. Given the size of this sub-sector and the complexity of these vehicles, ELPs and LPs display a high inherent risk of being misused for ML.

#### *Foundations*

851. *Nature, Scale and Complexity:* There are only 184 foundation companies formed in the Cayman Islands. Most foundations are exempt foundations, which means they carry out business solely outside the Cayman Islands.

852. *Purposes:* Approximately one-third of foundation companies are holding companies, whether for securities, real estate, or other purposes. The other types of business frequently engaged in by foundations are fintech, virtual assets, other technology, and telecommunications. In the absence of more information but considering the very small number of foundation companies in the Cayman Islands, the inherent risk of foundations is considered to be medium-high.

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<sup>83</sup> Investment entities for tax reporting are defined differently from funds that are regulated by CIMA. As such, there may be some overlap between the two categories, but that overlap is not complete and as a result the two figures should not be netted nor aggregated.

### *Inherent Risks – Trusts*

853. The Cayman Islands considers that the great majority of trusts are used for ordinary and legitimate reasons such as to manage assets on behalf of vulnerable persons; jointly hold property; ensure inheritance is distributed in accordance with a person’s will-and-testament; perform commercial activity and conduct charitable work. Still, the misuse of trusts is known to be a global problem and trusts remain vulnerable to abuse because they separate legal ownership from beneficial ownership, meaning that a criminal may disguise their interest in an asset by transferring legal ownership to a trustee.

854. Nature, Scale and Complexity: Trusts formed in the Cayman Islands are not required to be registered in a registry nor to have a Cayman Islands trustee. As a result, it is difficult to identify the existence of a trust or the identity of the trustee, if the trust does not have a local trustee. Local TCSPs report being the trustee of approximately 5729 trusts. Most are governed by Cayman Islands law. 1775 Exempted Trusts are registered with the Trusts Registry.

855. Lawyers reported being involved in the formation of 294 trusts in 2020, all of which are governed by Cayman Islands law. The main types of trusts formed were family or private wealth and STAR trusts. There is a limited interconnection between trusts and the Cayman Islands banking sector. The number of relationships with trusts represents less than 3% of all types of customers for Category A and Category B banks. Category A banks reported having approximately 800 relationships with trusts, with assets of \$6 billion. Category B banks reported approximately 1166 relationships with trusts, with assets of approximately \$3 billion.

856. Clients: TCSPs reported working with approximately 2700 settlors in over 80 jurisdictions. TCSPs also reported 93,397 beneficiaries in 133 countries. Approximately one-third of beneficiaries are Cayman Islands residents. A very small number of beneficiaries are PEPs.

857. Purpose: Most trusts created in the jurisdiction are discretionary trusts, whereby the regulated trustee makes the decisions relating to these trusts, which reduces the risk of such trusts being misused for ML. 644 Exempt Trusts and 503 Unit Trusts are regulated by CIMA as investment funds. Unit trusts in particular may have multiple layers of regulation in their structure.

#### **Typology 4 – Misuse of Foreign Trust to purchase property in the Cayman Islands**

Two trusts were established in “Country A” by a law firm as the primary shareholder of a Holding Company. The Cayman Islands trustee was directed to accept two payment orders in favour of a bank to buy real estate in the name of the Holding Company in Country A. The law firm controlled all communications regarding the trusts and the trustees did not ascertain the identity of the beneficiaries. The trustees contacted a local Real Estate agent who assisted in the holding company purchasing two properties for U\$450,000 and U\$650,000. The investigation revealed that individuals “Y” and “Z” were the beneficiaries of the trusts. Y and Z were Senior Managers of two fund management companies, established in “Country B” and were the subject of a fraud

investigation regarding serious misappropriation of funds in excess of U\$1million. The funds in the trusts originated from the criminal activity of the companies. The trust had been used to conceal the identity of the beneficial owners.

### **Typology 5 - Risks of Trusts – Perspectives from the Legal Profession**

Cayman Islands lawyers working in the area of trusts were asked for their views on the risks of trusts from ML and TF perspectives, and their opinion on the drivers of risks in this area. A majority of lawyers stated that the risks in the sector are either medium or medium-high. Many cited the additional layer of opacity when a trust is formed and the separation of beneficial ownership from legal ownership. However, most lawyers stated that this risk is lower when a trust is formed and administered by a regulated trustee and noted that regulated trustees are subject to stringent AML requirements.

Lawyers were divided about the type of trust that poses more ML risk. Some stated that unit trusts and trusts formed for a commercial purpose carry less ML risk than private trusts because the source of wealth in private trusts is more obscure and beneficiaries are easier to hide. However, other lawyers stated that the personal, face to face contact with the trust settlor in a family trust or in the context of estate planning means that such structures pose less risk than large commercial trusts. Most lawyers view the ML risk in this sector as stable, citing little to no evolution in the industry or the legal framework and no increased demand for trusts products or changes in the types of settlors. Other lawyers cited greater regulation, increased knowledge of the ML risks associated with trusts and generally better compliance practices as a reason for a decreasing risk in this sector.

Most lawyers view trusts as posing a low or medium low risk of TF, citing a low TF risk in the jurisdiction, onerous regulatory requirements, and scrutiny of the proposed trust at the onboarding stage. Some lawyers also stated that trusts are generally not an attractive vehicle for TF given that funds are tied up for a significant period, formation of trusts requires large sums and trusts cannot quickly be relocated. However, other cited that misuse of trusts for TF is possible, as trusts allow a person to conceal the ultimate beneficiary or intended use of funds.

The respondents saw the main drivers of risks in a trust as being the type of settlor (for example, a PEP or HNWI), the location of the settlor, the complexity of the overall structure and whether the trust is discretionary. One practitioner also highlighted the importance of the source of wealth and the general purpose of the transaction in assessing the risk of a trust.

858. In the absence of more detailed information about the number and purpose of Cayman Islands trusts, and the fact that trusts can be misused to frustrate law enforcement efforts in obtaining accurate details about who owns an asset, the inherent risk of Cayman Islands trusts is considered to be high.

### *V.2.b. ML Mitigating Measures for Legal Entities and Legal Arrangements (including trusts)*

859. All legal entities and exempt and limited partnerships under Cayman Islands law as well as foreign companies must register with the Companies Registry. For legal entities, publicly available information comprises the company name, type, status, nature of business, name of directors (or managers in the case of LLCs), share capital, registered office in the Cayman Islands, the date of registration and the registration number. This information is updated in real-time. The Registrar can share this as well as other information, including beneficial ownership information, in the possession of the Registrar upon request with any competent authority. The Registrar must provide this information within 48 hours.

860. Every company, including a foreign company, and LLC has an obligation to notify the General Registry of changes to information within 15 to 30 days, depending on the type of information and entity, subject to a penalty (except in the case of foreign companies).

861. Exempt and limited partnerships must register the name, nature of the business, registered office in the Cayman Islands, and the full name and address of each general partner, all of which is publicly accessible. LPs and ELPs must notify the Registrar of Changes to the information provided within 60 days.

#### *Role of TCSP*

862. Ordinary non-resident companies, exempt companies, LLCs, exempt and limited partnerships, must have a registered office in the Cayman Islands provided by a CSP licensed by CIMA. Foundation companies must appoint a secretary that is a licensee under the Companies Management Act. Under AML/CFT legislation, the CSP must conduct the full range of due diligence measures on its client company, including identifying the controllers and beneficial owners, understanding the nature of business and the purpose of the business relationship. The AMLRs require CSPs to record this information.

863. Every company and LLC is also required to keep a shareholder register in writing, indicating the names and addresses of all members and, in the case of companies, the number and category of shares held by each member, and whether such shares have voting rights. Except in the case of ordinary companies, there is no requirement, however, to keep the shareholder register at a location in the Cayman Islands, potentially hindering timely access to this information. Ordinary companies must file their register of members with ROC annually.

864. Companies, LLCs, and partnerships must maintain proper books of account. However, there is no requirement to maintain these records in the Cayman Islands. Companies that maintain this information outside the Islands must provide information regarding their books of accounts to its registered office annually. Where companies maintain their books of account outside their registered office, there is no requirement to provide them to a competent authority upon request, save to the DITC. This unnecessarily prolongs investigations, as it often requires law enforcement to obtain a company's accounts from an overseas jurisdiction.

### *Beneficial Ownership*

865. Ordinary companies, exempt companies, foundations, LLCs, and LLPs must register the full name, residential address, date of birth, and ID information of the beneficial owners with the beneficial ownership registry maintained by the Registrar of Companies. This information must be updated monthly (except for ordinary companies, where the update is annual). Approximately 90% of entities are compliant with the obligation to file beneficial ownership information. This will never be 100% due to, for example, new entity registrations occurring monthly, which do not require immediate beneficial ownership filing. In case of non-compliance, the Registrar of Companies can issue a fine to companies and/or their TCSP. The failure to pay a fine can lead to an entity being struck off from the Register. The Registrar of Companies verifies compliance with the filing obligation and verifies, on a sampling basis, the accuracy of the information, on a monthly basis.

866. The beneficial ownership information can be shared with international regulatory, enforcement and tax authorities in accordance with agreements, treaties, and memorandums of understanding agreed between the Cayman Islands and other jurisdictions. Private sector participants do not currently have access to this information. Some domestic authorities do not have direct access to information registered but must request such information on a case-by-case basis from the General Registry.

### *Supervision of TCSPs*

867. Almost all legal entities and arrangements are required to appoint a TCSP licensed by CIMA to act as their registered office. CIMA supervises TCSPs for AML/CFT.

### *Regulated Entities*

868. Approximately 3,377 legal entities are regulated by CIMA under a regulatory law, other than as investment funds. For these entities, comprehensive fit and proper procedures are applied, ongoing reporting, as well as data reporting obligations, are imposed and comprehensive AML/CFT supervision is conducted. CIMA imposes fines and other enforcement actions for non-compliance with the AML/CFT requirements and breaches of regulatory obligations.

869. CIMA also supervises 26,024 companies and exempt limited partnerships as investment funds or private funds. Mutual Funds regulated under the Mutual Funds Act must have a director who is registered or licensed under the DRLA. All funds regulated by CIMA must undergo an annual audit, which is signed off by a local auditor. Moreover, in the case of investment funds structures, there will often be other regulated entities involved in the structure, such as investment managers and administrators, which provide an additional layer of oversight.

870. In addition, 13,540 Cayman Islands entities are regulated in the United States, 1,397 in Singapore, 1,226 in Hong Kong, 1,150 in the United Kingdom and 4,266 in other jurisdictions.

### *Stock Exchange Listing*

871. Approximately 10% of Cayman Islands entities are listed on a stock exchange, meaning they are subject to an additional degree of oversight. Approximately 3226 exempted Cayman Islands companies are listed on the Hong Kong Stock Exchange, 4747 entities are listed on stock exchanges in the United States, 584 on the Cayman Islands stock exchange, 563 on a Chinese stock exchange and 1494 entities are listed on a variety of other exchanges.

### *Department of International Tax Cooperation*

872. Visibility into Cayman Islands entities is also increased through the work of the Department of International Tax Cooperation. Over 70,000 Cayman Islands Financial Institutions (CFIs) have registered with the DITC pursuant to the CRS and/or the Foreign Account Tax Compliance Act (FATCA) and most have reporting obligations under at least one of these frameworks.

873. Approximately 24,000 Cayman Islands companies and LLPs are subject to the economic substance requirements. These entities are required to have adequate substance (i.e., physical presence) for the income earned on the relevant activity in the Cayman Islands and must report to the DITC.

874. The DITC can share information about Cayman Islands entities and arrangements with foreign competent authorities via exchange of information avenues, which currently include Exchange of Information on Request, FATCA, the CRS, Country-by-Country Reporting, and Economic Substance. Relating to exchange of information on request, DITC received 129 requests in 2019 and 83 in 2020. Generally, requests on a taxpayer that is an entity or arrangement relate to accounting information (such as financial statements), information on specific transactions, ownership information, registration information and copies of commercial agreements.

### *Trusts*

875. The Banks and Trust Companies Act requires that any entity providing trustee services must be licensed by CIMA. There is no similar licensing requirement for professional trustees who are natural persons.

876. All trustees of Cayman Islands trusts, including natural persons, must comply with the Trusts Act and, for trustees regulated by CIMA, the Banks, and Trust Companies Act. The Trusts Act and the Banks and Trust Companies Act require a trustee to inform financial services providers that it is acting in its capacity as a trustee, before or at the time a relationship is formed, or a transaction is entered into.

877. The Trusts Act requires a trustee to maintain and keep up to date records of the identity and particulars of the settlor, contributor, service providers and other entities relating to the trust. The Trusts Act requires a trustee to provide any information in relation to a trust when a request is made by a competent authority. The AMLRs also require all trustees to collect CDD information and to keep that information accurate and up to date.

878. Exempt Trusts can register with a Competent Authority, as specified under 74A(2)(f) of the Trusts Act. The Competent Authority may share any information it holds with other competent authorities at their request. The Competent Authority may request an Exempt Trust to provide any information related to the trust. Registration of Exempt Trusts enhances the visibility of their operations.

**V.3. Cash**

Table 42: Summary of Risk Scores

Sub-Factor	2020 Risk Score
Physical cash	Medium-Low

*Utility in Cayman Islands*

879. As of 31 December 2020, the total KYD notes and coins in circulation was \$164.4 million dollars (2017: \$119.5 million dollars) equivalent to a 38% increase in currency in circulation from December 2017. The increase in currency in circulation is attributable to economic growth during the pre-COVID-19 pandemic period. The issuance of local currency in the Cayman Islands is facilitated by CIMA through the local Category A retail banks.

880. Category A retail banks have a significant amount of physical cash deposit transactions both in absolute terms and in value of transactions. These cash transactions mainly reflect the cash transactions by local businesses such as supermarkets, gas stations, restaurants, taxis, tour operators, churches, and the unbanked residents such as those on temporary work permits who do business mainly in cash. KYD was the most used currency for the physical cash deposits for Category A banks. Apart from KYD, other currencies reported for physical cash deposits were US\$ whose value of transactions are slightly less than one-third of total activity, whereas physical cash deposits in GBP, EUR and CAD were significantly less with each accounting for less than 0.1% of the total cash deposits. The higher proportion of US\$ cash deposits is consistent with the general acceptability of US\$ for cash transactions in the Cayman Islands.

881. Physical cash deposits reported by Category B banks are significantly lower compared to physical cash deposits reported by Category A banks. The physical cash deposits by Category B banks are equivalent to less than 0.2% of Category A banks' physical cash deposits both in the number of transactions and value of transactions. Hence, the vulnerability from physical cash transactions is mainly from domestic activities.

882. MSBs are exposed to the use of physical cash for both outgoing and incoming transfers. Outgoing remittances significantly exceed the incoming remittances both in number and value of transactions, which is reasonable and expected given that MSBs are utilized by the large expatriate community to send cash to their families abroad. However, the MSBs still present vulnerabilities for misuse for ML/TF/PF activities. (Please refer to Chapter 11.2m for more details on MSBs).

883. Various Government ministries, departments, and portfolios also accept a significant amount of physical cash payments in KYD and US\$ for payments for different services. Additionally, many local businesses' general acceptance of KYD and US\$ physical cash payments further supports the general acceptability of cash transactions.

#### *Risks Associated with Cash*

##### *Cross-Border Cash Movement*

884. Physical cross-border cash movement presents a mechanism through which criminals can move illicit proceeds across jurisdictions while avoiding scrutiny by financial institutions and possibly avoiding law enforcement detection. In the context of the Cayman Islands, however, this risk is somewhat reduced given the limited direct air accessibility of the Cayman Islands from international destinations. In-bound passengers are also required to declare any physical cash amounting in aggregate to 10,000 dollars or more, or its equivalent. Over the past five years, such declarations have been low both in terms of number and value of declarations. Physical currencies declared are US\$, KYD, EUR, and CAD. However, US\$ was the most declared currency. Only in a few cases did Cayman Islands CBC identify cash that was smuggled into the Cayman Islands without declaring, resulting in the seizure of approximately U\$800K in total since 2018.

885. Apart from cash movement by individuals, Category A banks, MSBs, and CIMA conduct a significant amount of bulk cash imports into the Cayman Islands. The imports by Category A retail banks accounts for almost the entirety of these imports whereas the imports by MSBs are less than 2% of the imports by Category A retail banks. The bulk cash imports are US\$, KYD, CAD, GBP, and EUR although the US\$ accounts for a significant portion of these imports. Category A non-retail banks and Category B banks do not engage in bulk cash import. Statistics on cash exports are not currently available.

886. The low cross-border risk associated with cash in the Cayman Islands also resonates with the low number of SARs reported over the past five years (about 0.1% of total SARs) relating to possible cash smuggling activities and unusual large cash transactions.

##### *Cash-Intensive Business*

887. The main way in which cash is significant in the Cayman Islands is through cash-intensive businesses, which have an inherently higher vulnerability because they can be used to legitimize criminal proceeds. For instance, criminals can document illicit cash as part of legitimate business proceeds placed in business accounts. Additionally, cash-intensive businesses also pose a challenge in identifying unusual activity because such businesses are inherently generating cash. Examples of cash-intensive businesses and organizations in the Cayman Islands include restaurants, retail stores, liquor stores, convenience stores, taxis, and churches. Lotteries, casinos, and gaming, while cash-intensive, are illegal in the Cayman Islands. However, the major source of vulnerability for cash-intensive businesses relates to domestic crime, which as outlined in the section on ML threats is quite limited compared to the exposure of the Cayman Islands to foreign proceeds of crime. Foreign cash-intensive businesses provide a limited vulnerability



because as discussed above, data provided by category B banks evidence that physical cash deposits of Category B banks are significantly low.

#### *Other Key and Emerging Risks*

888. Criminals can also use cash alternatives such as gold and precious metals for money laundering. For instance, although dealers of precious metals are not a cash-intensive business, a resident or tourist can buy precious metals via cash and ultimately move the precious metals across the border. Alternatively, the criminals can also bring precious metals into the country and sell them for cash which can subsequently be integrated into the financial system.

889. Physical cash transactions reports show that physical cash transactions exceeding \$10,000, or its equivalent are very rare in this market. This coupled with the Cayman Islands' limited geographical risk exposure in the DPMS market results in a reduced risk.

890. Some businesses in the Cayman Islands issue gift cards or prepaid cards to their customers, some of which are obtained via physical cash. Private sector consultations revealed that none of the gift cards or prepaid cards can be used outside the Cayman Islands.

#### *Conclusion*

891. In the Cayman Islands context, cash is utilized predominantly by domestic persons in the context of economic transactions and purchases. The use of physical cash outside the Cayman Islands by Category B banks as well as the cross-border movement of cash from/to the Cayman Islands seems to be limited in absolute terms as well as in terms of the value of cash and geographical risk exposure.

892. The above analysis has resulted in an overall risk score of the medium-low score given the limited international utilization of physical cash.

### **V.4. Trade-Based Risks**

893. Trade-based money laundering (TBML) and enabling activities, such as the misuse of corporate structures, can occur in a wide range of jurisdictions. Complex corporate structures and shell companies are often utilized in TBML schemes to disguise the true origin and destination of funds. The increasing volume, speed and value of global trade, and the complexities inherent in trade transactions and in its financing, arrangements coupled with limited awareness and understanding of how such trade can be abused, have made TBML an important avenue for moving illicit funds.

#### *Economic Sectors and Products Vulnerable to TBML Activity*

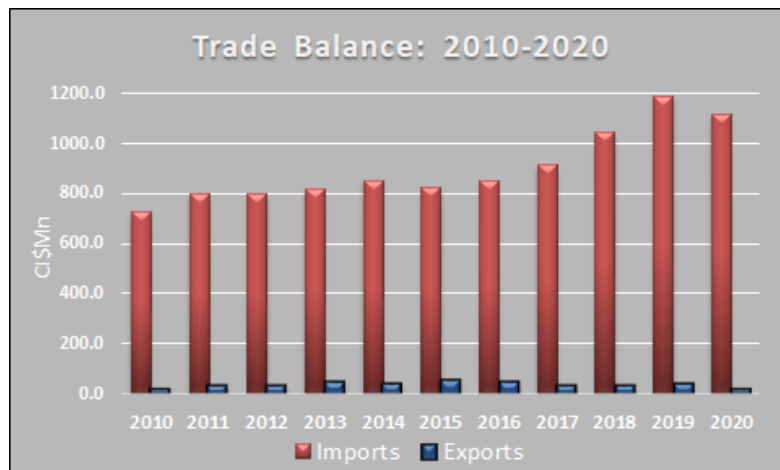
##### *Imports and Exports of Goods*

894. The Cayman Islands is not a transshipment point, there is no large shipping harbour, and the majority of shipments are for domestic sale and consumption. There is

limited local manufacturing of goods and natural resource production. The Cayman Islands also does not have a free-trade zone for trade for goods.<sup>84</sup>

895. The Cayman Islands have very limited exports, with imports far more than exports. Figure 23 shows the values of imports and exports from 2010 to 2020<sup>85</sup>.

Figure 23: Cayman Islands Imports and Exports



896. The United States is the Cayman Islands’ main trading partner. Imports from the United States represent 82% of all imports, while imports from the UK and the Caribbean represent a further 5% each. Merchandized trade can be misused to facilitate TBML (see Case study 20). The monetary value of imports of commodities is small. In 2020, the value of imports of commodities and unclassified goods was \$87 million (7.8% of all imports). The category of importation of commodities and transactions not elsewhere classified has been increasing steadily since 2018: \$24 million in 2018, \$72 million in 2019, and \$87 million in 2020. This growth primarily reflected the larger imports of non-monetary, crude, or semi-manufactured gold, or gold in powdered form. In 2020, \$85 million of such commodities was imported from the United States.

897. In 2019, the value of exported commodities was \$12 million (29% of all exports) and \$8 million in 2018 but decreased in 2020 to \$2 million (representing 12% of all exports in 2020).

898. Between 2018 and June 2021, 99% of all imports of gold and precious metals were by entities regulated by DCI<sup>86</sup>. The value of these imports was approximately US\$7 million per year. Where imports were not by regulated entities, they were by a small number of individuals from Canada, USA, UK, Cayman Islands, and Venezuela.<sup>87</sup>

84 There is a Special Economic Zone in the Cayman Islands, set up for trade in services, which is described in this report in chapter V.5. Special Economic Zone

85 The value of imports in 2019 was \$1.2 billion and exports were valued at \$41 million.

86 Further information is contained in the chapter on DPMS.

87 CBC has a process in place to flag gold or other precious metals should they arrive in the Cayman Islands from places such as Venezuela or other high-risk jurisdictions. The declaration along with other information will be scrutinized by officers with a view of identifying the legitimacy of the source.

899. In practice, very little activity in regard to TBML has been identified in recent years<sup>88</sup>. Between 2017 and 2020, the DPMS filed 12 SARs in relation to ML, six (6) were from Jewelers and two (2) from a second-hand dealer. The SARs were filed based on suspicions relating to a high volume of transactions, unusual conditions, declined business and fraud. Seven (7) of the SARs involve the sale or trading of gold (bars, coins, melted gold or jewellery). Six (6) of the SARs were the basis for disclosures to RCIPS; one resulted in an investigation and restraint on gold bars, while the others resulted in investigations unrelated to TBML or no further investigation.

#### **Case Study 20 – Gold as the Proceeds of Crime in the Cayman Islands**

The prosecution of the CIBFI's first stand-alone money laundering case commenced in 2019 and concluded in February 2020. This was a complicated case with 5 defendants, trans-national elements, and complicated matters of law. The evidence indicated that the criminal assets originated overseas, but it was not possible to identify the nature of the relevant predicate offence. Of the 5 defendants prosecuted, one was a local dealer in precious metals and compliance officer.

900. As demonstrated by the figures above, there is a low risk for TBML in the Cayman Islands relating to the movement of goods as part of trading.

#### *Trade Financing in the Cayman Islands*

901. The risk of the misuse of the Cayman Islands through trade financing in relation to TBML was also examined.

902. Cayman Islands licensed banks are engaged in trade finance activities only to a limited extent. Category A and Category B banks have reported only 614 customers engaged in export/import business or the shipping business. The value of assets held by these clients is US\$53 million for Category A Banks (0.1% of total banking assets) and \$1 billion for Category B Banks (representing 0.1% of Category B Banking Assets). Given the very small scale of trade finance activities in the Cayman Islands, the risk of misuse of trade finance products issued by banks for ML is considered to be low.

#### *The Misuse of Legal Entities*

903. An area where the Cayman Islands is however exposed to significant risks in terms of TBML is through the misuse of legal entities<sup>89</sup>. Tax evasion and customs offences are important predicate offences for TBML. These predicate offences would likely be committed in other jurisdictions as opposed to the Cayman Islands, but Cayman Islands' companies and arrangements could be misused in these schemes.

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88 The TBML risk analysis was limited by the fact that LEAs and regulators do not collect TBML data as a separate category.

89 According to the FATF 2020 TBML paper, two new methods of TBML include illicit cash integration and third-party intermediaries facilitating invoice settlement. As the Cayman Islands is not high risk in relation to the movement or use of illicit cash and does not provide significant services of third-party intermediaries facilitating invoice settlement, these risks were not found to be of relevance in the context of the Cayman Islands.

904. Front or shell companies are often used as corporate structures to facilitate TBML, albeit in different ways.<sup>90</sup> A shell company has no real operating activity and is used to hide ML activity and the identities of beneficial owners. Shell companies enable illicit actors to create a network of legal entities around the world. By contrast, a front company has a real business with legitimate operations that are used as a cover for ML and other criminal activities. In many ways, front companies present a much more significant TBML threat than shell companies.<sup>91</sup>

905. The Cayman Islands has a large corporate sector, with more than 113,182 companies and 31,144 partnerships registered with the ROC. Ordinary companies operating within the Cayman Islands are required to obtain a Trade and Business License. As of December 2020, only 170 Trade and Business licenses had been issued for businesses that provide services related to shipping, customs brokerage, freight, courier, and airline, all of which are more exposed than other forms of businesses to TBML risk.

906. The ROC requires all companies to submit data on the nature of their business. Based on data submitted to date, only 0.2% of companies are engaged in exporting services, goods, or commodities, or in other import, export, transport, and storage-related activities. However, almost half of companies identified their business activity as “holding company,” without any indication of the underlying activity.

907. The case study below sets out a scenario involving the misuse of front companies established in various jurisdictions. Whilst the case study does not involve the Cayman Islands, it identifies the risk of misuse of front companies and demonstrates how the veneer of international trade can help conceal the identity of beneficial owners from the financial institutions.

#### **Case Study 21 – TMBL- Information Provided by China<sup>92</sup>**

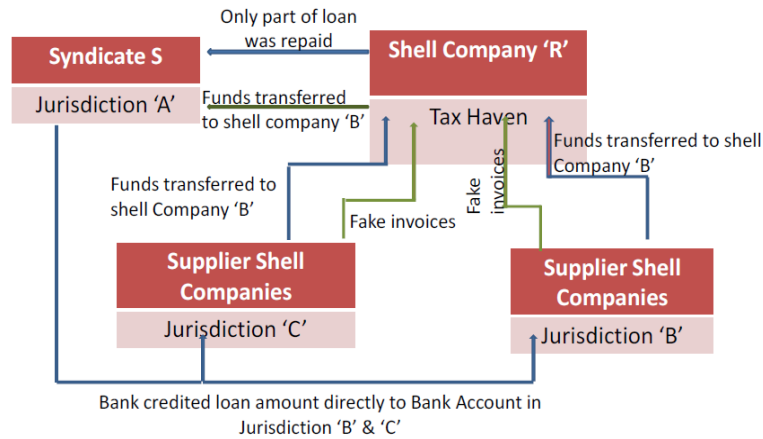
Criminal Syndicate S had a regional base in Jurisdiction A. Syndicate S registered a Shell Company R in a tax haven jurisdiction. Syndicate S set up several “supplier” shell companies in Jurisdiction B and Jurisdiction C. Syndicate S opened accounts in more than 10 banks in Jurisdiction A and applied for high-value loans. Shell Company R claimed that the company dealt with cross-border trading activities, and thus purchased goods from Supplier Companies in Jurisdiction B and Jurisdiction C.

Shell Company R obtained trade credit from the banks in Jurisdiction A on the strength of invoices for the purchases made from Jurisdictions B and C. The banks in Jurisdiction A directly credited loan amounts at the behest of Company R into the bank accounts of the “supplier” shell companies in Jurisdiction B and Jurisdiction C. On receipt of funds, the “supplier” shell companies immediately transferred the funds through a circuitous route to Shell Company R and other accounts controlled by Syndicate S. Shell Company R used the funds for part repayment of loans. The fake transaction cycle engendered outstanding non-performing loans for banks in Jurisdiction A.

90 Asia/Pacific Group (APG) Typology Report on Trade-Based Money Laundering, 20 July 2012. (“APG TBML Report”) Pg. 5.

91 APG TBML 2012 pg. 37

92 APG TBML 2012.pg.60



### Commentary

The case study shows how cross border trade was misused by a criminal syndicate to move value between shell companies located in different jurisdictions. There was the use of a Tax Haven jurisdiction to take advantage of the relaxed AML regime and to avoid detection. The veneer of international trade was created to conceal collusion among related companies located in different jurisdictions. The trade finance mechanism of raising bank loans (trade credit) against fake invoices could occur because of limitations in verifying the credibility of overseas suppliers. Wire transfers made to such related suppliers resulted in losses to the banks. A criminal syndicate could engage in TBML in the absence of cross-verification of trade data and financial data.

908. The main risk of TBML in the Cayman Islands is its very large corporate sector. For a discussion on the risks of misuse of legal entities, see section V.2. Legal Persons and Arrangements.

### *Suggested Measures to Counter TBML*

909. Feedback from the polling of members of CIIPA in 2021 demonstrated that 36 responses indicated that the expectation of TBML occurring in the Cayman Islands was 3.52, on a scale of 0 to 10, with 0 being rare and 10 being common.

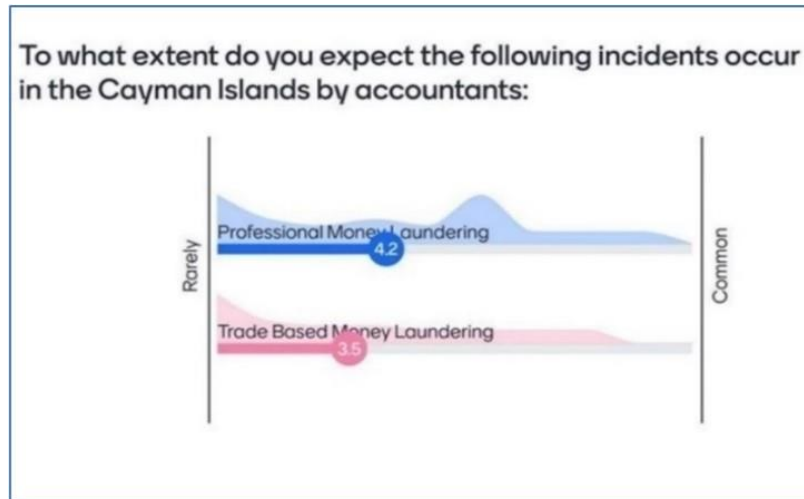


Figure 24: Poll Response on TBML Occurrence

910. Training and outreach were commenced with a session at a Stakeholder Forum (public-private partnership event) in May 2021 on TBML, as well as other industry engagement sessions. The Cayman Islands has numerous effective committees/groups that can readily facilitate a framework for awareness, coordination, and cooperation in relation to TBML matters. Furthermore, given the Cayman Island’s size, the jurisdiction is advantageously positioned to provide rapid international cooperation in relation to TBML. As a preventative measure, specific guidance on TBML should be provided to the DPMS sector and those banks with exposure to trade finance.

### *Conclusions*

911. The risk of the misuse of the Cayman Islands for TBML through the import and export of goods is minimal. The trade finance risk is also low. The risk in relation to the misuse of the Cayman Islands for TBML relates mainly to the misuse of the corporate sector, which is a medium-high risk.

### **V.5. Special Economic Zone**

912. The Cayman Islands Special Economic Zone Act (SEZ Act) was adopted in 2011, allowing for the establishment of SEZs, and establishing the SEZ Authority as the licensing and oversight authority.

913. Exemption from taxation, relaxation of immigration and employment laws and permits, certain benefits under the customs laws, property management services, and the development of high-tech infrastructure and technology are some of the incentives for new businesses to settle in the SEZ. All other laws in force in the Cayman Islands fully apply in the SEZ, including the POCA, the AMLRs, the Beneficial Ownership (Companies) Regulations, as well as all aspects of domestic civil, criminal, and criminal procedures laws.

914. The only SEZ, called the Cayman Enterprise City (CEC), was established in 2011. The CEC comprises 7 parks, each devoted to a specific industry. As of April 2021, a total of 215 companies were operating out of the CEC parks, as follows:

- The Internet Park (92 companies);
- The Media Park (44 companies);
- The Science and Technology Park (17 companies);
- The Commodities and Derivatives Park (50 companies);
- The Outsource Park (no company);
- The Academic Park (no company); and
- The Maritime and Aviation Services Park (12 companies).

915. The Special Economic Zone (Cayman Enterprise City) Order (2019 Revision) ("SEZ Order") defines in very general terms the types of activities that may be conducted in each park. When comparing the description of activities in the SEZ Order with the FATF definitions of "financial institution" and "designated non-financial business and profession," the Commodities and Derivatives Park and the Maritime and Aviation Services Park explicitly allow for businesses to offer services that fall under the FATF definition and thus are required to be regulated and supervised. These activities include the following:

- commodities and derivatives fund management and advisory services;
- security and commodity contracts brokerage or proprietary trading for own account;
- buying and selling of commodities, derivatives, futures, and options products; and
- shipping financiers.

916. The SEZ Order does not explicitly permit FATF covered activities in the other parks. However, the definitions of the permitted activities in the parks in the SEZ Order may leave room for interpretation.

917. Companies registered with the CEC are not permitted to conduct business domestically, except for the limited purposes that are ancillary to or in furtherance of business carried on outside the Islands. Companies registered in a SEZ are expected to maintain a physical presence in the Cayman Islands.

918. The SEZ Regulations and Order prohibit a SEZ Company from being involved in the provision of financial services that require a license or other approval or oversight by CIMA, except for activities in the CEC's Commodities and Derivatives Park.

#### *Inherent Risks Specific for SEZ*

919. Of the 50 companies registered in the Commodities and Derivatives Park, 15 are Registered Persons under the SIBA. These companies are regulated by CIMA and subject to the full set of AML/CFT obligations set out in the AMLRs. The remaining 35 companies engage in securities business on their behalf and not for or on behalf of a customer. As

such, they operate outside the definition of the FATF standard, which covers only financial activities conducted for or on behalf of a customer. The Maritime and Aviation Services Park allows for businesses to offer a wide range of services, a small portion of which – namely shipping financiers – would fall under the FATF’s definition of “financial institutions” if conducted as a business and on behalf of a customer. None of the 12 companies currently operating in this Park undertake this activity.

920. A limited number of VASPs operate from the Internet Park. These are required to be licensed or registered by CIMA. VA related activities conducted from the Internet Park include mining (1 company) and companies related to VASPs, including consulting for VASPs and software development.

921. Under the SEZ Order, activities permitted to be conducted from the Media Park, the Outsource Park and the Academic Park do not fall under the definition of “financial institutions” per the FATF standards. The activities undertaken by the 44 companies in the Media Park relate mostly to advertising, publishing, marketing, and market research. The Outsource Park and Academic Park allow activities relating to research, scientific and technical services.

922. The 17 companies in the Science and Technology Park also do not carry out activities covered by the FATF, as they engage primarily in biotechnology research and development, engineering, intellectual property development and computer programming. However, while not covered by the FATF definition of FI or DNFBP, these companies could be engineering products that facilitate illicit money flows, for example by facilitating encrypted communications.

923. In conclusion, most SEZ Companies do not conduct RFB. The companies that do engage in RFB, notably those in the Commodities and Derivatives Park, are fully supervised by CIMA for AML/CFT. Based on the above, the inherent risk of companies in the SEZ being misused for ML is **medium-high**.

#### *Mitigating Measures for SEZ*

924. The SEZ Authority examines and processes applications for trade certificates and enforces compliance with the SEZ related requirements. DCI serves as a secretariat to the SEZ Authority and undertakes the general administration of the SEZ Authority.

925. An applicant for a trade certificate must be an Exempted Company or Exempted Limited Partnership (ELP) under the Companies Act or the Exempted Limited Partnerships Act and be registered with the ROC. A letter by a Cayman Islands lawyer or TCSP must be filed with the application, certifying that the customer has been onboarded subject to full due diligence measures, and indicating the Park that is most appropriate to the applicant’s primary business. The SEZ Authority relies on the representations of the lawyer or TCSP relating to the activities intended by the applicant to be conducted from the Park. At times, this description of the business is provided in general terms.

926. The SEZ Act states that the applicant for a trade certificate, as well as its beneficial owners, managers, and directors must be a fit and proper person. DCI conducts a full due diligence check on all natural and legal persons that appear in the application, including beneficial owners. Approval cannot be given if the grant is not in the public interest, the



applicant or its controller, beneficial owner, director, senior officer, or shareholder is not a fit and proper person, or the applicant provided false information on its application form.

927. Based on the DCI's report and all supporting documents, the SEZ Authority decides whether to grant a trade certificate. A trade certificate is valid for 5 years. After the expiration of the trade certificate, the company must apply for a new trade certificate and redo the full application process.

928. The SEZ Act allows the DCI to conduct onsite inspections of SEZ companies. Companies must notify the SEZ Authority of any material changes to their activities, controllers, directors, or shareholders and must file an annual return. The SEZ Act allows DCI to request information from SEZ companies to verify the accuracy of statements made by SEZ companies regarding their business activities and to identify entities that carry out RFB.

929. The SEZ Authority may revoke a trade certificate if a SEZ company contravenes the SEZ Act or regulations, breaches a condition of its license, is convicted of an offence under the POCA, contravenes the AMLRs, has a controller, director, senior officer, or beneficial owner who is not fit and proper, or makes a false representation to the SEZ Authority. If a trade certificate is revoked, the company cannot reapply for a trade certificate for 3 years.

930. All companies must have an office lease agreement with the CEC and at least one registered employee. In practice, most SEZ companies have only one employee in the Cayman Islands, leading to the conclusion that SEZ companies either do not have their main operations in the Cayman Islands or are very small operations. The local presence requirement still does have a mitigating effect on the risks involved with the SEZ as for every company there is a responsible person present and accountable in the Cayman Islands.

931. With the passage of the SEZ (Amendment) Act, 2020, the SEZ Authority and DCI have increased visibility into the business of companies in the SEZ to ensure that they do not carry out unlicensed RFB. This Act also includes more stringent acceptance criteria into the SEZ, including the requirement for fitness and propriety, and allows the SEZA to revoke a trade certificate in some instances. Overall, the mitigants applied to mitigate the risks in the SEZ are strong. As a result, the residual risk that companies in the zone would be misused for ML or TF is **Medium-Low**.

## V.6. Professional Risks

### Threat

932. As indicated earlier on in this report, the Cayman Islands is exposed predominantly to ML risks associated with foreign proceeds of crime. All financial and non-financial sectors in the Cayman Islands serve a wide range of international clients and businesses, and thus Cayman is exposed to the risk of being misused by criminals to channel foreign-generated proceeds into or through the Cayman Islands.

933. Professional money laundering (PML) is a subset of third-party money laundering. The main characteristic that makes PML unique is the provision of ML services in exchange for a commission, fee, or other types of profit. In other words, in the context of PML a financial institution or non-financial intermediary is not only misused for ML schemes but is actively engaged in enabling and facilitating or even orchestrating such schemes in exchange for a fee for professional services rendered. While the specialization in providing ML, services is a key feature of professional money launders (PMLRs), they may not be engaged exclusively in laundering illicit proceeds, but rather they may also be engaged in legal business activities. The main purpose of PMLs is to use their specialised knowledge and expertise to exploit legal loopholes; find opportunities for criminals, and help criminals retain and legitimize the proceeds of crime. Given that PMLs are third-party launderers, they are often not familiar with the predicate offence (e.g., narcotics or human trafficking) and are generally not concerned with the origins of the money that is moved. Nonetheless, PMLs are aware that the money that they move is not legitimate.

934. The Cayman Islands may be exposed to PML in two main ways. First, the financial industry itself may be providing PML services to criminals. The financial service industry in the Cayman Islands is diverse and apart from banks and other financial institutions, also comprises a significant number of internationally operating legal professionals, auditors, accountants, tax advisors and TCSPs, all of which play a key role as intermediaries in accessing the financial market in the Cayman Islands or elsewhere. (There are 150 companies that employ professional lawyers and accountants on work permits. 41 such companies are not supervised for AML/CFT as they are not conducting RFB. These companies employ professionals that include approximately 40 accountants and 11 lawyers. Most of the unsupervised companies are known in the community and include large retailers, utility companies and recruitment firms.)

935. While the Cayman Islands previously had cases in which professional financial or non-financial intermediaries engaged in criminal conduct, for example, theft or embezzlement to benefit themselves, so far none of these cases involved professional ML schemes or in fact scenarios where a Cayman Islands FI or DNFBP was engaged in or oversaw a laundering scheme on behalf of a customer in exchange for a professional fee. None of the 51 ML and 5 TF cases investigated by the IPT/CIBFI involved professionals in the Cayman Islands that are involved in transnational ML or TF schemes. There are also no recorded ML prosecutions featuring Cayman Islands law firms or individual lawyers or accountants, no convictions recorded for the same, nor has there been any criminal investigations carried out on the Islands into any law firms or individual attorneys in the last 3 years.

936. Second, given the diversity, complexity, global reach, and international nature of the Cayman Islands business, PMLs located abroad may be interested to use the Cayman Islands as a conduit for implementing the ML schemes they are operating for their customers.

937. The vast majority of SARs relate to FPOC; the large number, sophistication and international reach of business conducted through the Cayman Islands; and the significant volumes of funds that are being moved through or administered from the

Cayman Islands all make the country a potentially attractive location for PMLs all over the world to utilize in their operations. Given the complexity of PML activity, its international nature, and the capacity of PMLRs to combine legal with illegally obtained funds, these cases are very challenging to detect which in turn may help explain the absence of any cases so far.

### *Inherent Risks*

938. Professionals can facilitate ML in each of the following stages: placement, layering and integration. This section aims to analyse the risk of PML in the Cayman Islands in each of the three stages of ML, taking into consideration the Islands' risk profile.

#### *Stage 1: Placement.*

939. In this stage, proceeds of criminal activity are transferred or collected by the PMLR. Placement usually happens in proximity to where the predicate offence was committed. In the Cayman Islands, the placement of funds through a local PMLR is less likely to occur. First, the risk context of the Cayman Islands is such that predicate criminality committed abroad and not domestically is the main concern. Placement in the Cayman Islands thus would require that the proceeds are either smuggled into the country in the form of cash or other valuables such as gold, or precious stones. Transnational cash movements are however not common and do not take place to a significant extent as outlined in the section related to cash. The inherent risk of the Cayman Islands being used by PMLRs for purposes of placing proceeds of crime is low.

#### *Stage 2: Layering*

940. The layering stage of ML seeks to separate the proceeds of crime from its illegal origin through the application of different techniques, such as international wire transfers, financial transactions, investments, and bookkeeping techniques. Some of the techniques used in the layering stage use sectors such as banks, trade, and legal persons or arrangements to create complex structures to obscure transactions or the identities of beneficial owners. ML in this stage generally uses a combination of these techniques to achieve the objective. PMLRs could also use a variety of techniques, such as the use of banks, legal persons, TCSPs, via trade-based documents and services to complete a ML operation. The stage where the Cayman Islands is most likely to play a role in third-party money laundering schemes is the layering stage, whereby the layering scheme may be orchestrated or implemented by professionals in the Cayman Islands, or by PMLRs abroad but involving the layering activity taking place in the Cayman Islands. Incoming and outgoing wire transfers may be taking place through banks or may be connected to the Cayman Islands through the utilization of the Cayman Islands legal entities that may hold non-resident bank accounts abroad or foreign companies that hold a non-resident account in the Cayman Islands. The layering stage may also be where domestic professional intermediaries such as attorneys, accountants and TCSPs could most effectively utilize their skills and services to set up, implement and/or facilitate transnational money laundering schemes. The inherent risk of the Cayman Islands being used by PML for purposes of layering proceeds of crime is high.

### Stage 3: Integration or Extraction

941. In this last stage, the illicit funds are used for investing (integration), or they are transformed into an asset that can be transferred to the person that committed the predicate offence. From the perspective of the PMLR, in this last stage, the funds are likely to be transferred to accounts controlled by the clients of the PMLR, their close associates or third parties acting on their behalf or on behalf of affiliated legal entities. The PMLR may invest the illicit proceeds on behalf of these clients in real estate, luxury goods, and businesses abroad (or, in some cases, in countries where the funds originated from). The funds can also be spent on goods deliveries to a country where the funds originated or to a third country.<sup>93</sup> The Cayman Islands' financial services industry as well as the thriving real estate market do provide an opportunity for PMLR to integrate assets laundered in the Cayman Islands economy. In most cases, however, the expectation would be that proceeds layered through the Cayman Islands would eventually be invested and integrated with markets and countries abroad, and closer to where criminals may be able to enjoy the profits of their criminal effort. The inherent risk of the Cayman Islands being used by PMLR for purposes of integrating proceeds of crime is medium-high.

Table 43: Summary of Risks PML

ML Stage	Risk posed by PML for the Cayman Islands
1. Placement	Low
2. Layering	High
3. Integration	Medium-High
<b>Final PML risk</b>	<b>Medium-High</b>

## V.7. Emerging Risks and Trends

### Cybercrimes

942. Although large scale ransomware attacks have not yet occurred in the jurisdiction, cybercrime of all types is an emerging risk. In 2020, 223 cyber-enabled crimes recorded by the RCIPS represented 6% of all recorded crimes. Almost half of these (109) related to the use of an information and communications technology (ICT) device to defraud, abuse, annoy, threaten, or harass. A further 50 of these were associated with Public Order offences such as harassment, alarm, or distress. An additional 50 were linked with acquisitive crimes or money laundering. The RCIPS Cyber Crime Investigations Unit, through the Digital Forensic Hub of the RCIPs, assisted with 40 cyber investigations in 2020. High-frequency types of cybercrime investigations in 2020 included "Use of ICT to Harass, Annoy or Defraud" (8), "Phishing" (5), and "Social Media Impersonation/Fraud" (5).

943. Based on SARs received by the FRA, US\$9 million was lost to "Business Email Compromise" in 2020, with ongoing efforts to collect US\$6 million. There was a further

93 FATF Report on Professional Money Laundering. 2018. Pg. 19

US\$17.3 million attempted misappropriation. In comparison, US\$1.4 million was lost in 2019 to “Business Email Compromise” schemes and attempted misappropriation of an additional US\$67.7 million.

944. In response to rising cybercrimes including ransomware cases, where virtual assets are used, the Digital Forensic Hub was established in Grand Cayman in December of 2019 with support from the UK’s Foreign and Commonwealth Office (FCO) and the Financial Conduct Authority (FCA). The main aim of the Hub is to address cyber and forensic investigation gaps within the Cayman Islands, as well as to provide such assistance to other British Overseas Territories.

945. In November of 2019, a Cayman Islands bank holding company experienced a data hack in one of its overseas banks. Hackers released information on over 1,400 client accounts associated with numerous jurisdictions. Such attacks highlight the need for financial institutions, DNFBPs, and VASPs to remain vigilant and to implement robust IT security systems and other measures.

946. In May of 2020, CIMA issued a Rule and Statement of Guidance (SOG) on Cybersecurity for regulated entities. The SOG articulates the requirement for regulated entities to demonstrate that data protection is a part of their overall strategy and cybersecurity framework. The SOG states that CIMA incorporates cybersecurity and IT system reviews in its examination/inspection procedures.

#### *Impact of COVID-19 on ML, TF, and PF Threats*

947. On 2 April 2020, CIMA sent out an advisory on COVID-19 scams to its licensees and registrants. It cautioned against sending money to or sharing personal, medical, or financial information with unknown individuals or businesses. It also asked that licensees and registrants be wary of fake charity websites and emails, and for them not to click links or open attachments from persons they do not recognize. Skilled perpetrators also pretend to act as legitimate businesses seeking information, something that legitimate businesses would not do. The RCIPS highlighted the increase in COVID-19-related fraud in June of 2020, in line with the findings of the FATF. By the middle of 2020, there were a plethora of miracle cures for COVID-19 peddled over the Internet. Criminals took advantage of the pandemic to lure victims into providing personal information or to part with their money. Investment scams also included solicitations for persons to invest in companies that had found cures or could prevent persons from catching the virus. Three fake news articles were reported to the RCIPS and investigated by its Digital Forensic Hub.

948. COVID-19 increased the exposure of accountants internationally to fraud, ML, TF, and PF risks, mainly in the sale of ailing companies due to economic restrictions—which increases the risk that criminals may purchase these business entities. Accountants become involved if they are engaged to value the failing business or prepare due diligence or other forms of documentation for the sale. The shift away from face-to-face business has not greatly impacted the larger accounting firms operating internationally as this was the pre-existing method of communication (in a recent poll, 77% of 27 respondents said

they maintained business relationships by email). The move from face-to-face business did however have a temporary impact on local firms during the lockdowns in 2020.

949. The economic resilience of the Cayman Islands' response to COVID-19 may be attributable to the booming property market, but this increased the risk in the real estate market. Due to the Cayman Islands' response to COVID-19, globalization, and the ability to move funds electronically, more international buyers are aware of the Cayman Islands and would wish to purchase real estate in the Islands than ever before. As such, the familiarity level of serving the domestic market decreases and the inherent client risk from international buyers is on the rise. Moreover, international buyers often have the financial means to purchase via cash which also increases the risk profile. In addition, the pension withdrawal provided to workers in the Cayman Islands has played a role in increasing cash purchases. Due to the nature of the pension withdrawal program and the fact that these funds can be traced back to a regulated institution (making the disbursement from employment within the Cayman Islands), the inherent risk of this emerging risk is lower.

950. The RCIPS highlighted to the public the increase in COVID-19 related fraud in June of 2020, in line with the findings of the FATF.<sup>94</sup> Whilst law enforcement in the Cayman Islands remained vigilant due to the significant increase in the variety of cyber-enabled schemes that surfaced during the pandemic, these authorities had not seen a vast increase in COVID-19 related cyber-crimes. However, the general trending up of this type of activity continues especially as it relates to Business Email Compromise. Law enforcement has not seen any associated activity in the context of foreign funds flows.

951. Whilst the Cayman Islands was extremely successful in preventing the spread of COVID-19 by undertaking swift and wide-ranging actions, thus limiting the period of lockdown, and enabling a relatively early return to the workplace, the Pandemic presented significant challenges for supervisors and law enforcement authorities.

#### *Operational Challenges faced by the Relevant Authorities as result of COVID*

952. During the height of the pandemic, improvements to technology became a necessity. The FRA implemented necessary safeguards to allow for the filing of SARs via email. It also published notices regarding the physical closure of the office and guidance on how reporting entities should submit reports during that time. These measures did not result in any decline in SAR filing activities. FRA staff worked via secure remote access and continued to analyze cases, request additional information where necessary, and make disclosures to competent authorities and foreign counterparts. The FRA continued to hold meetings, albeit virtually, with MLROs, law enforcement agencies and competent authorities. Financial sanctions notices continued to be disseminated in a timely manner and outreach was continued. Regular PIAG meetings were held virtually, and the PF Threat Assessment was also finalized during the COVID-19 period.

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<sup>94</sup> By the middle of 2020 there was a plethora of miracle cures for COVID-19 being peddled over the Internet. Criminals took advantage of the pandemic to lure victims into providing personal information or to part with their money. Investment scams also included solicitations for persons to invest in companies that had found cures or could prevent persons from catching the virus.

953. For CIBFI, the enhanced use of technology-facilitated strategic and operational forums with other competent authorities/foreign law enforcement authorities and the private sector to progress investigations. The CIBFI also relied on technology to conduct recruitment and stakeholder outreach. Like the other authorities, the FCFG continued to operate throughout the pandemic. Several training events, in which FCFG member agencies were participants, were held by video conference during the height of the COVID restrictions. The ODPP staff smoothly adapted to working remotely during the height of the pandemic. All levels of the Court system, including the Court of Appeal, Grand Court, and Summary Court, moved to Zoom hearings. Papers that were required to be filed with the Court were accepted electronically. The manner in which all avenues of the criminal justice system came together was so effective that Zoom hearings are still held and papers are routinely now filed electronically.

954. Supervisors also adjusted their working methods to maintain a high level of supervisory engagement with regulated entities. For example, beginning mid-March 2020, CIMA deployed remote, virtual, and video technology to conduct inspections as it could no longer physically conduct onsite inspections. The scope, detail and rigour of the inspections remained the same, as did the detail and quality of draft and final inspection reports. The DCI reached out to DNFBPs to start desktop reviews. The NPO Registrar quickly adapted and utilized technological tools like zoom and WhatsApp calls and website updates to interact with the sector. The website was updated regularly. The ROC Compliance Unit conducted daily team briefings sessions focused on the continued delivery of service and recent developments regarding international best practices. The Registrar also issued a COVID-19 public announcement further to the issuance of the communication from the FATF on COVID-19 fraud and manipulative tactics. During the pandemic response period, two remote onsite inspections were conducted, as well as ongoing training with the compliance team. CIIPA, which was already equipped to work remotely, was able to seamlessly continue its inspection process. Pre-inspection forms and supporting documentation were requested and submitted electronically for review. Inspections were conducted remotely. The majority of the firms inspected also had business continuity infrastructure in place. CARA faced the challenge of embarking on its first on-site inspections just as the pandemic took hold globally and Cayman Islands' shelter-in-place regulations were put into effect. Unable to conduct onsite supervision, CARA instead carried out its inspections remotely. CARA is aware of one firm which reduced the number of its administrative staff but there have been no firm closures as a result of the pandemic.

955. Supervisors also maintained proactive outreach during the Pandemic by using virtual training, online conferences and publishing circulars, advisories, and newsletters. For example, in April 2020 CIMA, published a specific advisory to all regulated entities about "AML/CFT Compliance under COVID-19" and CARA also issued a specific notice on 'Anti-Money Laundering, Countering the Financing of Terrorism and Countering Proliferation Financing ("AML/CFT/CPF") Compliance During COVID-19.' CIMA also issued an advisory and conducted outreach on "COVID-19: Emerging AML/PF/TF Risks and How to Respond" at the CIBFI virtual Stakeholders' Forum in June 2020. CIMA also set up biweekly meetings with relevant trade associations, which helped to foster constructive dialogue with industry around the impact of COVID-19 and enabled CIMA to

better identify emerging risks (for example, increases in phishing risk and operational resilience).

956. The Owen Roberts International Airport remained closed for over 18 months. During the closure of the Owen Roberts International Airport to general aviation traffic (with the exception of Air Bridge flights), the CBC continued its vigilance by profiling and analysing passengers against the JRCC / APIS databases and sanctions list. These measures were taken in order to detect and deter individuals who may otherwise take advantage of the pandemic to commit offences against the various laws of the Cayman Islands.

### *Virtual Assets*

957. Fraud and ransomware attacks using VAs is also an emerging risk. In 2019, the Cayman Islands raised U\$1.4 billion from 119 Initial Coin Offerings (ICOs), making it the 6<sup>th</sup> largest jurisdiction in the world based on the amount raised. Although 2020 saw a significant fall in ICOs globally and in the Cayman Islands, other fraudulent schemes around the world (including ransomware attacks) are increasingly using virtual assets to move illicit funds. On 22 November 2019, CIMA issued a public advisory on virtual assets and VASPs to increase public awareness about the potential risk of fraud. In 2020, CIBFI actioned four international requests for assistance, resulting in the restraint of VAs on behalf of three separate jurisdictions, with a combined estimated value of U\$14 million. These pertained to civil recovery of unauthorized cryptocurrency transfers.

### **Case Study 22 - Fraud**

The FRA received SARs from various financial service providers (FSPs) regarding the Cayman Islands exempt entities that belong to a collective investment scheme. Mr. P, the ultimate beneficial owner and controlling person of the investment scheme had been charged in Jurisdiction 5 with operating a Ponzi scheme that misrepresented itself as a cryptocurrency investment scheme. The FSPs provided information about the group structure and identified bank accounts owned by the exempt entities.

The FRA issued section 4(2) (c) Directives to local financial institutions and DNFBPs in furtherance of its analysis. A review of the banking transactions and the AML/KYC records revealed several suspicious transactions, including excessive incoming funds that resulted in the schemes being over-subscribed. These funds would then be transferred out to other entities instead of being returned to the subscribers. There were also unusual purchases of several luxury items that did not appear consistent with the purpose of the investment scheme, including the purchase of a Cayman Islands-registered yacht.

In early 2019, additional SARs were received concerning other previously unknown entities and bank accounts related to known associates of Mr. P. Based on a review of the banking, corporate, and AML/KYC records obtained from local banks and DNFBPs, the FRA concluded that these persons were also complicit in the alleged fraud and that these entities were also used to launder criminal proceeds.



A series of disclosures were made by the FRA to the overseas FIU in Jurisdiction 5. The information was also disclosed to the FCIU and CIMA for intelligence purposes. Sometime after the disclosures were made, the FRA became aware that a criminal conviction was secured in Jurisdiction 5 against a subject included in the disclosures.

### **Case Study 23 - Fraud: Unauthorised Payment Through a Virtual Asset Account**

A local financial institution (securities firm) filed an STR regarding unauthorised payments between the VA accounts of their broker and a foreign national. The securities firm reported the activity after it determined that the foreign national intended to make transfers totalling US\$4.8 million (two separate transactions that occurred six minutes apart on the same day) and filed an application to the broker for a trading account the next business day. The wallet was not hosted in the Cayman Islands. The STR reporting led to successful information exchange with foreign FIUs and the successful return of most of the funds to the victim, as the online platform in a foreign jurisdiction had been able to freeze the suspect's account before the offence had been completed.

### *Gold Storage*

958. In addition to the US and Canada, the Cayman Islands has emerged as a major centre in the Western Hemisphere for the storage of gold and other precious metals. The relative safety, in addition to political and economic stability, makes the jurisdiction attractive for this line of business. No import duties are levied on commodities. There are also no sales taxes associated with storage fees. As of the end of December 2020, there were two companies storing gold on behalf of clients mainly from the US, Canada, and Europe. Another company closed operations in 2020 after being inspected by DCI and fined for non-compliance with the AMLRs. Safe custody services fall under the definition of RFB in paragraph 13 of Schedule 6 of the POCA. However, no supervisor has been assigned to oversee the activities of these custodians where this is the sole activity. Non-monetary gold imported into the Cayman Islands peaked at \$26.6 million in 2015 and declined to a low of \$5.5 million in 2017. The past two years have seen significant increases, however, to \$62.3 million in 2019 and \$74.0 million in 2020. These increases were associated with the rising price of the commodity and clients hedging against uncertainty in equity markets.

959. In August of 2019, four Venezuelans were arrested after CBC officers detected suspicious activity with respect to two flights that were made to the Cayman Islands between 27 May and 31 May 2019. A charge was laid for the laundering of 140 pieces of gold that had a combined weight of 240 lbs. and a value of approximately \$4.0 million. A second charge was laid, alleging that the men had laundered \$2.4 million in gold into the Cayman Islands. While a jury found the defendants not guilty on 3<sup>rd</sup> December 2020, the case highlights the efforts made by the Cayman Islands to investigate and prosecute money laundering. Continued vigilance is required with respect to money laundering risks through gold coming from South America. Illegal mining and gold smuggling from South America have been linked to drug trafficking, organised crime, and sanctions evasion.

## *Human Trafficking*

960. Human trafficking and the smuggling of migrants have become a major concern<sup>95</sup> in recent years. Human trafficking is the movement of people for the purpose of exploitation, whether it be for sexual exploitation, forced labour, or enslavement. COVID-19 has intensified the drivers and root causes of human trafficking: poverty, war, climate change, demand for cheap labour, and the opportunity for high profits. Financial institutions and DNFBPs headquartered in the UK have put out statements in accordance with the UK's Modern Slavery Act 2015, covering branches and subsidiaries in the Cayman Islands. The Cayman Islands "Trafficking in Persons (Prevention and Suppression) Act (2015 Revision) is modelled after the UK's Modern Slavery Act. Two government officials received training in early 2020 as part of a professional qualification programme in Human Trafficking Countermeasures and Policy Development, through the International Centre for Parliamentary Studies and in collaboration with the University of Cambridge in the UK.

961. While there have not been significant numbers of refugees and economic migrants being smuggled into the Cayman Islands, and there is not sufficient information to form conclusions on this activity, there are signs<sup>96</sup> that organised human trafficking rings within the region are manipulating work permit systems to bring in victims of human trafficking and modern slavery.

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<sup>95</sup> <https://www.fatf-gafi.org/media/fatf/content/images/Human-Trafficking-2018.pdf>

<https://www.oecd.org/gov/ethics/human-trafficking.htm>

<sup>96</sup> <https://www.e-ir.info/2020/02/04/globalization-human-trafficking-and-tourism-in-the-caribbean/>  
[https://www.unodc.org/documents/data-and-analysis/glotip/2018/GLOTIP\\_2018\\_CENTRAL\\_AMERICA\\_AND\\_THE\\_CARIBBEAN.pdf](https://www.unodc.org/documents/data-and-analysis/glotip/2018/GLOTIP_2018_CENTRAL_AMERICA_AND_THE_CARIBBEAN.pdf)

## Annex 1 – Data Source Catalogue

### DATA - ML RISK ASSESSMENT

#### DOMESTICALLY GENERATED PROCEEDS OF CRIME (WG NT)

- a) FRA Statistics 2017 - 2020: SARs received concerning domestic predicate criminality and types of crimes/amounts involved.
- b) FRA 2017 - 2020: SARs received concerning domestic predicate criminality and types of crimes/amounts involved.
- c) FRA Statistics 2017 - 2020: SARs received, broken down by FI/DNFBP sector involved, including securities, OFIs, accountants, securities sector and TCSPs, (referring not only to the filing entity but also to entities that may be referenced in a SAR or are mentioned in a SAR) and for each sector including other FIs and VASPs, statistics to be further broken down by reason for filing/suspicion in each case and amounts and types of assets involved.
- d) FRA - 2017 - 2020: SARs received on grounds of suspicion of TF and facts of the case in each instance, and follow up action taken by FRA, as well as SARs received concerning terrorism high-risk countries and types of crimes/amounts involved in each case.
- e) CBC - 2017 – 2020: Statistics on requests received from foreign customs authorities either for cases involving (a) ML and the associated foreign predicate criminality or (b) proceeds generating offences for which cooperation was sought independent of any ML charges, in each case broken down by the requesting countries and indicating the types and amounts of assets involved and the action requested.
- f) CBC - 2017 - 2020: Private flight and private and cruise ship vessel logs, arranged per nationality of travellers as well as cash declaration information for such flights and vessels
- g) CBC- 2017 - 2020: Cash declaration statistics by nationality of traveller and origin/destination country, and indicating amounts declared in each case. Cash declaration statistics for private flight and private and cruise ship vessels by nationality.
- h) CBC - 2017 to 2021 Import/Export Data per country.
- i) CBC - WORC) - Demographic and work permit statistics for the Cayman Islands provided by the Economics and Statistics Office, indicating the nationality of holders and applicants.
- j) RCIPS Annual Crime Statistics 2017 – 2020 on types of crimes reported per year and observations of trends.
- k) RCIPS - 2017 – 2020 incoming and outgoing foreign direct cooperation request statistics (police to police, Interpol, ARIN-CARIB etc.) on (1) ML and the associated foreign predicate criminality; and (2) proceeds generating offences independent of any ML charges, and in both cases broken down by the countries sending or receiving the request and indicating the type of assets, value or amount and action requested.
- l) RCIPS - Statistics 2017 – 2020 - Number of ML criminal investigations in CI related to foreign predicate criminality and identifying the relevant criminality.
- m) RCIPS - Statistics 2017 – 2020 - Number of ML criminal investigations in CI where the assets are abroad, type of asset and amount or value.

- n) RCIPS - 2017 - 2020: Investigations on TF and facts of the case in each instance, and follow up action taken by RCIP, as well as investigations concerning terrorism high-risk countries and types of crimes/amounts involved in each case.
- o) ACC - Statistics on quantity and quality of corruption cases in or involving CI.
- p) ODPP - Summary and Grand Court Statistics 2017 – 2020 - Number of ML prosecutions in CI, differentiating between those related to domestic criminality vs. those related to foreign predicate criminality and in each case identifying the relevant criminality and the assets involved (amounts, location, type of assets).
- q) ODPP - 2017-2020: Criminal prosecutions in the Cayman Islands involving suspicions of TF, terrorism or assets related to TF.
- r) ODPP - 2017 - 2020: Mutual Legal Assistance Requests involving suspicions of TF, terrorism or assets related to TF.
- s) ODPP- Statistics 2017 – 2020 of Informal cooperation (e.g., ARIN-CARIB) involving TF or assets related TF.
- t) ODPP - 2017-2020: Criminal prosecutions in the Cayman Islands involving suspicions of PF, proliferation or Iran or North Korea.
- u) CIMA - 2017 – 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance and the countries involved (passive and active cooperation) and involving a Cayman FI or DNFBP, including VASPs.
- v) CIMA - Inherent risk data collected by CIMA (all sectors) on # of beneficial owners from a high-risk terrorism country and the most relevant sectors as per the data.
- w) CIMA - Funds Flow Data 2019/2020 for high-risk terrorism countries, including MSBs
- x) DCI - 2017 - 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance and the countries involved (incoming and outgoing active cooperation) and involving a Cayman Islands DCI supervised DNFBP.
- y) DITC data or narrative from CRS or Economic substance or exchange of information requests.
- z) CARA - 2017 - 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance involving a Cayman Islands lawyer.
- aa) CIIPA - 2017 - 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance involving a Cayman Islands accountant.
- bb) Opensource information on Cayman Islands' crime profile.
- cc) Opensource information on SEZ companies involved in foreign fraud-related lawsuits.
- dd) Opensource information TI Corruption Perception Index concerning the Cayman Islands.
- ee) Opensource information UNODC Data Portal <https://dataunodc.un.org>.
- ff) Opensource information OSAC Caymans Islands Report 2020.  
[https://www.osac.gov/Country/Cayman Islands/Content/Detail/Report/bb8e1aeb-abe1-441f-b685-18d5580499d6](https://www.osac.gov/Country/Cayman%20Islands/Content/Detail/Report/bb8e1aeb-abe1-441f-b685-18d5580499d6)
- gg) *Opensource information* Case Studies of any major CI proceeds generating criminal cases involving the main proceeds generating crimes categories in CI.

## FOREIGN GENERATED PROCEEDS OF CRIME AND THE CAYMAN ISLANDS (WG NT)

- a) ODPP – 2017 – 2020 Mutual Legal Assistance Statistics on both MLAs for ML and the associated foreign predicate criminality and the various types of proceeds generating offences for which MLA was sought.
- b) ODPP – 2017 – 2020 Mutual Legal Assistance Statistics on both MLAs on assets related to ML and the associated foreign predicate criminality.
- c) ODPP – 2017 – 2020 Informal Cooperation (e.g., ARIN-CARIB) Statistics on both MLAs on assets related to ML and the associated foreign predicate criminality.
- d) ODPP Summary and Grand Court Statistics 2017 – 2020 - Number of ML prosecutions in CI related to foreign predicate criminality.
- e) ODPP Summary and Grand Court Statistics 2017 – 2020 - Number of ML prosecutions in CI with assets abroad, type of asset and amount or value.
- f) FRA Statistics 2017 - 2020: STRs received concerning foreign predicate criminality and types of crimes/amounts involved.
- g) RCIPS - 2017 – 2020 incoming and outgoing foreign direct cooperation request statistics (police to police, Interpol, ARIN-CARIB etc.) on (1) ML and the associated foreign predicate criminality; and (2) proceeds generating offences independent of any ML charges
- h) RCIPS - 2017 – 2020 foreign information sharing/cooperation requests received or requested by RCIPS concerning legal entities or legal arrangements.
- i) RCIPS - Statistics 2017 – 2020 - Number of ML criminal investigations in CI related to foreign predicate criminality and identifying the relevant criminality.
- j) RCIPs Statistics 2017 – 2020 - Number of ML criminal investigations in CI where the assets are abroad, type of asset and amount or value.
- k) CBC - 2017 – 2020: Statistics on requests received from foreign customs authorities either for cases involving (a) ML and the associated foreign predicate criminality or (b) proceeds generating offences for which cooperation was sought independently of any ML charges.
- l) CBC – 2017 – 2020 Foreign Cooperation Request Statistics on both international coop. requests on assets related to ML and the associated foreign predicate criminality, the type of assets, value or amount and action requested.
- m) CIMA – 2017 – 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance.
- n) DCI – 2017 - 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance.
- o) Case Studies of any major CI ML cases involving foreign predicate criminality or transnational illicit funds flows.
- p) Open-source information on Cayman Islands featuring in any major ML cases involving laundering activities in CI but predicate criminality in' crime profile.
- q) DITC data from CRS or Economic substance or exchange of information.
- r) <https://www.state.gov/wp-content/uploads/2020/03/Tab-2-INCSR-Vol-2-508.pdf>

- s) <https://iff.taxjustice.net/#/profile/CYM>
- t) <https://fsi.taxjustice.net/en/>
- u) <https://www.corporatetaxhavenindex.org/en/>
- v) <https://www.offshorealert.com/listsummary.aspx/chris-ebanks-v-dania-cayasso-and-judy-ebanks-cayman-islands/ListSummary.aspx?MetaTypeID=156&MetaValue=Cayman+Islands>
- w) [https://wdr.unodc.org/wdr2020/field/WDR20\\_BOOKLET\\_1.pdf](https://wdr.unodc.org/wdr2020/field/WDR20_BOOKLET_1.pdf)

## INHERENT ML RISKS IN FINANCIAL and NON-FINANCIAL SECTORS

### Banking Sector (WG BS)

- a) Swift Transaction Data 2018/2019
- b) CIMA Inherent Risk Data Banks 2019
- c) CIMA Inherent Risk Data for Credit Unions and Building Society 2019
- d) CIMA Currency in Circulation Statistics  
[https://www.cima.ky/upimages/commonfiles/CurrencyStatistics2015-2020Q3\\_1603808419.pdf](https://www.cima.ky/upimages/commonfiles/CurrencyStatistics2015-2020Q3_1603808419.pdf)
- e) 2017 – 2021 statistics on cash seizures, including bulk cash seizures.
- f) CIMA data from the banking sector about their Cayman Islands formed or incorporated clients
- g) ODPP - 2017 – 2021 - international cooperation requests specifically relating to physical cash transactions/movements and for incoming requests.

### Securities Sector:

- a) CIMA Inherent Risk Data SIBLs and former SIBL-EPs 2019

### Investment Sector (WG Inv. S)

- b) Inherent Risk Data 2019 of the investment sector
- c) Investments statistical digest 2019 (mutual funds)
- d) MARS (internal) database (2021) (mutual fund and private fund information)

### Insurance Sector (WG Ins. Sect)

- a) CIMA Inherent Risk Data Insurance Sector 2019
- b) Focused questionnaire circulated to certain types of insurers in 2021
- c) Views and Inputs generated through the private sector roundtable

### Trust and Company Service Providers (WG TCSPs)

- a) CIMA Inherent Risk Data TCSPs 2019
- b) Data on registered trusts
- c) Data received in response to CIMA's forms - 2019:
  - AIR-157-10
  - ARC-158-10
  - BAR Form

### Real Estate Agents, Brokers, and Developers (WG RA/DPMS)

- a) Registration Information
- b) Inherent Risk data collected by DCI in 2018-2020
- c) Questionnaires to the private sector

- d) Information collected by DCI through supervisory engagement
- e) Business registration information
- f) Real Estate Agents, Brokers, and Developers: Lands and Survey data on sales 2017-2020
- g) Real Estate Agents, Brokers, and Developers: Data from Planning Department on approved projects/development 2017-2020

#### Dealers in Precious Metals and Stones (WG RA/DPMS)

- a) Registration Information
- b) Inherent Risk data collected by DCI in 2018-2020
- c) Questionnaires to the private sector
- d) Information collected by DCI through supervisory engagement
- e) Business registration information
- f) DPMS data – Excel spreadsheet – 2019 to 2020 from DCI

#### Lawyers (WG Lawyers)

- a) AML Return 2021 data
- b) Roundtable session with CILPACS
- c) Firms registration information
- d) Information collected by CARA through supervisory engagement
- e) CAACI - Details of the specialized group of CI legal firms CAACI work in close partnership with
- f) Land Registry - Number of sales and purchases of land/ property, broken down by cash or mortgage payment, value, foreign or domestic ownership, a natural or legal person.
- g) FRA – Statistical data on SARs
- h) ODPP - 2017 -2020 Number of criminal prosecutions in CI of law firms/ individual lawyers
- i) Shipping Registry 2020 - Details of ‘representative persons’ who are CI lawyers/ law firms or CI trust or company service providers

#### Accountants (WG Accountants)

- a) NRA Questionnaire to Individual CIIPA Members
- b) CIIPA Supervisory data 2019-2021
- c) Polling question at CIMA’s main AML training event 8 April.
- d) ODPP - 2017 -2020 Number of criminal prosecutions in CI of accounting firms/accountants

#### Other Entities and Institutions (MSBs, Lenders, Leasing/Financing, Dealers of High-Value Goods,) (WG Others)

- a) NRA Questionnaire to the private sector
- b) CIMA collected inherent risk data for MSBs

#### Virtual Assets AND VIRTUAL ASSET Service Providers (WG VAs)

- a) CIMA – 2017 – 2020 Foreign Cooperation Request from supervisors with linkage to VASPs or VAs and the countries that requested assistance.
- b) CIMA - 2017 – 2020 Foreign Cooperation Request Statistics from foreign supervisors with linkage to ML or governance. and involving a Cayman Islands FI or DNFBP, including VASPs

- c) CIMA - VASP Registration form/process
- d) ODPP – 2017 - 2020 Mutual Legal Assistance Statistics on MLAs involving VAs or VASPs and identifying the various types of offences for which MLA was.
- e) ODPP - 2017 - 2020 Mutual Legal Assistance Statistics involving Cayman Islands FIs or DNFBPs, including VASPs, broken down by sector and identifying the various types of offences for which MLA was sought and the countries that requested assistance.
- f) FRA – 2017 – 2020 Statistics on the direct international cooperation requests for VAs or VASPs and the associated predicate criminality and the countries that requested assistance.
- g) RCIP – 2017 – 2020 Statistics on direct cooperation request ML for VAs or VASPs and the associated predicate criminality and the countries that requested assistance.
- h) DCI – 2017 - 2020 Foreign Cooperation Request Statistics from supervisors with linkage to VAs or VASPs and the countries that requested assistance.
- i) FRA Statistics 2017 - 2020: STRs received concerning VAs or VASPs and types of crimes/amounts involved.
- j) RCIPs Statistics 2017 – 2020 - Number of criminal investigations in CI related to VA or VASP criminality and identifying the relevant criminality.
- k) RCIPS - 2017 - 2020: Statistics on direct internal cooperation requests received involving Cayman Islands FIs or DNFBPs, broken down by FI/DNFBP sectors involved, including for VAs/VASPs and other FIs.
- l) Open-Source information on any criminal cases or adverse media involving VA or VASP criminality and linkages of any sort to CI.

#### CAYMAN ISLANDS' ML RISK-MITIGATING MEASURES (WG NVS)

- a) AML Law and regulations.
- b) The registration process and templates for former SIBLEPs and associated legislative changes and description on how they are impacted in practice.
- c) Economic substance law and impact on mitigating ML risks.
- d) Beneficial Ownership law and impact on mitigating ML risks.
- e) Resourcing breakdown and increase of all competent authorities on AML.
- f) Resourcing breakdown and increase of company register since 2017
- g) Resourcing breakdown and increase of DITC resources.
- h) Description of PIAG composition, mandate, outputs/description of Sanctions Coordinator – role, responsibilities, resourcing, mandate, output.
- i) Domestic and Intern. Coop. Frameworks. Reference competent authorities on PF, including in areas such as de-flagging of vessels, striking off companies from the registry etc.
- j) Chart of supervisory setup CIMA and DCI, CIIPA, CILPA and Statistics and case studies on outcomes of Supervisory Engagement of each.
- k) Chart of FIU set up and description of technological enhancements.
- l) Chart of RCIPs institutional changes in the area of financial investigations (CIBFIs) and case studies of any relevant outcomes.
- m) CFT specific training provided to RCIP staff.



- n) Chart of RCIPS institutional set up in the area of terrorism and TF and case studies of any relevant outcomes
- o) Description of CBC composition, mandate, resourcing and effectiveness/Enhancement of CBC resourcing and effectiveness.
- p) CFT specific training that was provided to CBC.
- q) CBC - Import/Export controls processes and their effectiveness; resourcing, powers and set-up of relevant import/export control offices or authorities in CI.
- r) VASP registration process, legislative and oversight framework, and supervisory set-up description.
- s) Domestic and International Cooperation Frameworks.
- t) Private Sector Awareness and Compliance Performance – high-level conclusions and findings from supervisory engagements of CIMA, DCI, CIIPA, CILPA etc. and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- u) Statistics and agendas of outreach and awareness-raising conducted for the private sector on ML.
- v) CAACI - Description of CAACI composition, mandate, resourcing, and effectiveness.

## CHAPTER II – TF RISK ASSESSMENT

- a) Terrorism Financing THREATS (UPDATED BY SECTORAL WGS)
- b) CIMA - Inherent risk data collected by CIMA (all sectors) on # of beneficial owners from a high-risk terrorism country and the most relevant sectors as per the data.
- c) RCIPS - CFT specific training provided to RCIP staff and the countries that requested assistance
- d) RCIPS - Chart of RCIPS institutional set up in the area of terrorism and TF and case studies of any relevant outcomes
- e) RCIPS - 2017 - 2020: Investigations on TF and facts of the case in each instance, and follow up action taken by RCIP, as well as investigations concerning terrorism high-risk countries and types of crimes/amounts involved in each case.
- f) RCIPS - 2017 – 2020 foreign information sharing/cooperation request (incoming and outgoing) involving TF or a high-risk terrorism country and identifying the facts of the cases in which cooperation was sought and (for incoming), the country that requested assistance.
- g) FRA - 2017 - 2020: STR received on grounds of suspicion of TF and facts of the case in each instance, and follow up action taken by FRA, as well as SARs received concerning terrorism high-risk countries and types of crimes/amounts involved in each case.
- h) FRA - 2017 – 2020 foreign information sharing/cooperation request (incoming and outgoing) involving TF or PF, DPRK or Iran or a high-risk terrorism country.
- i) FRA - Statistics 2017 – 2020 of asset frozen related to UNSCRs related to terrorism (1267 & 1988) and/or National Terrorists List (1373).
- j) ODP: 2017-2020: Criminal prosecutions in the Cayman Islands involving suspicions of TF, terrorism or assets related to TF.

- k) ODPP: 2017 - 2020: Mutual Legal Assistance Requests involving suspicions of TF, terrorism or assets related to TF.
- l) ODPP: Statistics 2017 – 2020 of Informal cooperation (e.g., ARIN-CARIB) involving TF or assets related to TF and the countries involved.
- m) DCI - Inherent risk data collected by DCI on # of beneficial owners from Iran or DPRK or high-risk terrorism or a high-risk ML country.

#### CAYMAN ISLANDS' TF RISK MITIGATING MEASURES: (WG NVS)

- a) RCIPS - Resourcing breakdown and staff increase of the RCIPS on AML.
- b) RCIPS - Chart institutional changes in the area of financial investigations (CIBFIs) and case studies of any relevant outcomes.
- c) FRA - Resourcing breakdown and recent increase resources of FRA
- d) CIMA - Description of the registration process and templates for former SIBLEPs and associated legislative changes and description of how they are impacted in practice.
- e) CIMA - Private Sector Awareness and Compliance Performance – high-level conclusions and findings from supervisory engagements of CIMA and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- f) CIMA - Statistics and agendas of outreach and awareness-raising conducted for the private sector on ML.
- g) Shipping Registry: Description of shipping registry composition, mandate, resourcing, and effectiveness.
- h) CBC - Import/Export controls processes and their effectiveness; resourcing, powers and set-up of relevant import/export control offices or authorities in CI.
- i) CBC - Description of CBC composition, mandate, resourcing, and effectiveness.
- j) PIAG - Description of PIAG composition, mandate, outputs.
- k) PIAG Description of Sanctions Coordinator – role, responsibilities, resourcing, mandate, output.
- l) DCI - Resourcing breakdown and the recent increase of DCI concerning AML.
- m) DCI - Chart of supervisory set up of DCI, and Statistics and case studies on outcomes of Supervisory Engagement
- n) DCI - Private Sector Awareness and Compliance Performance – high-level conclusions and findings from supervisory engagements of DCI and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- o) DCI -Statistics and agendas of outreach and awareness-raising conducted for the private sector on ML, TF, or PF.
- p) DCI - Private Sector Awareness and Compliance Performance - high-level conclusions and findings from supervisory engagements of DCI specifically on PF and TF compliance.

- q) DITC - Resourcing breakdown and the recent increase of DITC resources as they relate to tax evasion reporting mechanisms.
- r) CARA - Resourcing breakdown CARA and the recent increase of resources on AML.
- s) CARA - Chart of supervisory setup, Statistics, and case studies on outcomes of Supervisory Engagement.
- t) CARA - Private Sector Awareness and Compliance Performance – high-level conclusions and findings from supervisory engagements of CARA etc. and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- u) CARA - Private Sector Awareness and Compliance Performance - high-level conclusions and findings from supervisory engagements of CARA specifically on PF and TF compliance and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- v) CARA - Statistics and agendas of outreach and awareness-raising conducted for the private sector on ML, TF, and PF.
- w) CIIPA - Resourcing breakdown and the recent increase of resources on AML.
- x) CIIPA -Chart of supervisory set up of CIIPA and Statistics and case studies on outcomes of Supervisory Engagement.
- y) CIIPA - Private Sector Awareness and Compliance Performance – high-level conclusions and findings from supervisory engagements of CIIPA etc. and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- z) CIIPA - Statistics and agendas of outreach and awareness-raising conducted for the private sector on ML.
- aa) CIIPA - Private Sector Awareness and Compliance Performance - high-level conclusions and findings from supervisory engagements of CIIPA specifically on TF and PF compliance and display of positive trends in terms of severity and the absolute number of compliance violations identified.
- bb) CAACI - Description of CAACI composition, mandate, resourcing, and effectiveness.

### CHAPTER III – PF RISK ASSESSMENT (PIAG)

- a) PIAG questionnaire returns 2021.
- b) PIAG and International Cooperation Frameworks, including competent authorities on PF, including areas such as de-flagging of vessels, striking off companies from the registry etc.
- c) CIMA Funds Flow Data 2019/2020 for DPRK and Iran.
- d) CAACI - 2017 – 2020 statistics on the direct international cooperation requests involving PF, DPRK or Iran and identifying the facts of the cases in which cooperation was sought and the countries that requested assistance.
- e) PIAG and International Cooperation Frameworks, including competent authorities on PF, including areas such as de-flagging of vessels, striking off companies from the registry etc.

- f) CIMA Money Service Business (MSBs) statistics on transfers to/from Iran and DPRK.
- g) Inherent risk data collected by Company Registry on beneficial owners from Iran or DPRK.
- h) Inherent risk data collected by CIMA, CIIPA, CILPA, and DCI on beneficial owners from Iran or DPRK.
- i) Inherent risk data collected by the tax authority on beneficial owners from Iran or DPRK.
- j) Private flight and private and cruise ship vessel logs to screen for DPRK and Iranian nationals coupled with cash declaration information for flights and vessels involving Iranian or DPRK nationals.
- k) Demographic and work permit statistics for the Cayman Islands provided by the Economics and Statistics Office.
- l) ODPP – 2017 - 2020 Mutual Legal Assistance Statistics on MLAs involving PF, DPRK or Iran.
- m) FRA – Statistics 2017 - 2020: SARs received on grounds of suspicion of PF as well as SARs received concerning DPRK or Iran.
- n) CI Land and Shipping Registry - 2017 – 2020 statistics on direct international cooperation requests involving PF, DPRK or Iran.
- o) FRA Statistics 2017 - 2020: STRs received involving PF, DPRK or Iran.
- p) RCIPs Statistics 2017 – 2020 - Number of criminal investigations in CI related to PF, DPRK or Iran and identifying the relevant criminality.
- q) ODPP Summary and Grand Court Statistics 2017 – 2020 - Number of prosecutions in CI related to PF, Iran or DPRK.
- r) Open-Source information on any criminal cases or adverse media involving PF and the Caribbean.
- s) Country Implementation Reports to UN Sanctions Committee for DPRK  
<https://www.un.org/securitycouncil/sanctions/1718/implementation-reports>
- t) ODPP: 2017-2020: Criminal prosecutions in the Cayman Islands involving suspicions of PF, proliferation or Iran or North Korea.
- u) ODPP: Statistics 2017 – 2020 of Informal cooperation (e.g., ARIN-CARIB) involving PF or assets related PF).
- v) RCIPS – 2017 – 2020 statistics on direct international cooperation requests involving PF, DPRK or Iran.
- w) RCIPS - Statistics 2017 - 2020: Investigations on PF as investigations concerning DPRK or Iran.
- x) CAACI - 2017 – 2020 statistics on the direct international cooperation requests involving PF, DPRK or Iran.
- y) CBC - 2017 – 2020 statistics on direct intern. coop. requests involving PF, DPRK or Iran.

- z) CBC - 2017 to 2021 Import/Export Data, including per country (and separately noting any data relating to DPRK or Iran)

#### CAYMAN ISLANDS' PF RISK-MITIGATING MEASURES (WG NVS)

- a) Import/Export controls processes and their effectiveness; resourcing, powers and set-up of relevant import/export control offices or authorities in CI.
- b) Description of PIAG composition, mandate, outputs.
- c) Description of Sanctions Coordinator – role, responsibilities, resourcing, mandate, output.
- d) Description of CAACI, CBC, CI Land Registry, CI Shipping Registry, CI Company Registry composition, mandate, resourcing, and effectiveness.
- e) Cross-reference of those measures described in Chapter I that are also relevant for PF, including supervision, FIU, etc.
- f) TFS related legal framework and outcomes.
- g) Domestic and Intern. Coop. Frameworks. Of each of the above reference competent authorities on PF, including in areas such as de-flagging of vessels, striking off companies from the registry etc.
- h) Private Sector Awareness and Compliance Performance - high-level conclusions and findings from supervisory engagements of CIMA, DCI, CIIPA, CILPA specifically on PF compliance and awareness.
- i) Statistics and agendas of outreach and awareness-raising that were conducted for the private sector on PF.

#### IMPACT OF COVID-19 ON ML, TF AND PF THREATS \*OUTLINE CHANGES TO CRIMINALITY THAT MAY HAVE BEEN OBSERVED DOMESTICALLY OR INTERNATIONALLY <sup>97</sup> THAT MAY IMPACT CAYMAN ISLANDS AS FOREIGN POCS (WG NCT)

- a) All agencies update on any new risks as a result of COVID-19 (both in terms of criminals taking advantage of the pandemic and in terms of consequences for the operations of the private sector (e.g., DPMS closures) and adaptations made due to pandemic, both in terms of operations e.g., remote work, remote court hearings, remote OSIs, and adapting to new COVID-19 risks.

#### NON-PROFIT ORGANIZATIONS (WG NPOs)

- a) NRA Questionnaires to private sector 2021.
- b) Registration and annual return responses from NPOs.
- c) Data and information which were collected as part of the 2019 NPO Risk Assessment through submissions by the FTA, RCIP, CIMA, DCI, CBC, ACC and ODPP.
- d) RCIPS - Statistics 2017 – 2021: Investigations involving Cayman Islands NPOs and identifying the facts of the cases and types of crimes/amounts involved.
- e) RCIPS - 2017 – 2020 intern. coop. requests received or requested by the RCIP involving Cayman Islands NPOs.

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<sup>97</sup> <http://www.fatf-gafi.org/media/fatf/content/images/Update-COVID-19-Related%20Money%20Laundering%20and%20Terrorist%20Financing%20Risks.pdf>

- f) ODPP - Statistics 2017 – 2021: Prosecutions involving Cayman Islands NPOs.
- g) ODPP - 2017 – 2020 intern. coop. requests received or requested by the ODPP involving Cayman Islands NPOs.

#### RISKS ASSOCIATED WITH LEGAL PERSONS AND ARRANGEMENTS (WG IO5)

- a) NRA Questionnaire to the private sector (lawyers and TCSPs) 2021.
- b) Beneficial Ownership Information 2021.
- c) 2021 data collected by Company Registry on beneficial owners, by nationality
- d) 2017 – 2021 Annual Company Registration Statistics
- e) Data on registered trusts
- f) ROC data on Nature of business of companies and statistics on the location of directors
- g) FRA Statistics 2017 – 2021: STRs filed with the Cayman Islands' FRA involving Cayman Islands legal entities or arrangements.
- h) FRA – 2017 – 2020 foreign information sharing/cooperation request statistics related to legal entities or legal arrangements and identifying the facts of the cases and types of crimes/amounts involved, including the BO information request (passive and active cooperation).
- i) RCIPs Statistics 2017 – 2020 - Number of criminal investigations in CI related to legal entities or legal arrangements.
- j) 2017 – 2020 foreign information sharing/cooperation requests received or requested by RCIPS concerning legal entities or legal arrangements.
- k) RCIPS – 2017 – 2020 statistics on direct international cooperation requests related to legal entities or legal arrangements
- l) ODPP Statistics 2017 – 2021: Prosecutions involving Cayman Islands legal entities or arrangements.
- m) ODPP – 2017 - 2020 Mutual Legal Assistance Statistics on MLATs related to legal entities or legal arrangements and identifying the facts of the cases and types of crimes/amounts involved and the countries involved.
- n) ODPP - 2017 – 2020 foreign information sharing/cooperation requests received or requested by ODPP concerning legal entities or legal arrangements and identifying the types of crimes/amounts involved, type of legal entity or arrangement and the nationality of BO and the requesting country.
- o) Supervisory statistical data from CIMA on types and numbers of legal entities licensed in the Cayman Islands.
- p) 2019 Surveys of the TCSP sector in the Cayman Islands.
- q) Open-source information on ML, TF or PF schemes involving Cayman Islands legal entities or arrangements.
- r) Tax Authority - 2017 – 2020 foreign information sharing/cooperation request statistics related to BO information (passive and active cooperation).
- s) Tax Authority - Statistics on # and types of companies carrying on in-scope business and for investment funds, statistics on the breakdown between ELP and other corporate forms
- t) DCI data on companies that hold a TBL (nature of business)
- u) DCI - Statistics on international cooperation requests received relating to BO information
- v) DCI - SEZ companies - # per park
- w) CIMA data from the banking sector about their Cayman Islands formed or incorporated clients

- x) General CIMA data on the type of Cayman Islands regulated companies/entities (including funds), their size and business
- y) CIMA - AIR form statistics for TCSPs

#### CASH (WG Banks)

- a) CIMA inherent risk data 2019/2020/2021 for all sectors as they pertain to the extent to which FIs accept/have received or facilitated cash transactions.
- b) FOREX data if and as collected by CIMA.
- c) CBC 2017 - 2021 - cash declaration statistics.
- d) CBC 2017 - 2021 - cash smuggling and seizure statistics (lack of declarations or false declarations).
- e) RCIPs 2017 - 2021 statistics on cash seizures, including bulk cash seizures.
- f) CIMA Currency in Circulation Statistics  
[https://www.cima.ky/upimages/commonfiles/CurrencyStatistics2015-2020Q3\\_1603808419.pdf](https://www.cima.ky/upimages/commonfiles/CurrencyStatistics2015-2020Q3_1603808419.pdf)

#### TRADE BASED ML, TF, and PF schemes / professional ML

- a) CBC - 2017 to 2021 Import/Export Data
- b) CIMA 2019 Inherent Risk Data for all sectors to determine the extent to which Cayman Islands FIs may be involved in or facilitate trading activities - customers that are trading companies or services that are trade-related.
- c) <https://iff.taxjustice.net/#/profile/CYM>
- d) Company Registry/BO Information on the purpose of CI incorporate legal entities
- e) SEZ Companies -Zones that are trade-related.
- f) Vessel registration - number of vessels, BOs, how many of them were trade-related.
- g) RCIPs Statistics 2017 - 2020 - Number of criminal investigations in CI related to TBML and identifying the facts of the cases and types of crimes/amounts involved.
- h) ODPP - 2017 - 2020 - any data on cases or international cooperation requests related to TBML.
- i) ODPP - Summary and Grand Court Statistics 2017 - 2020 - Number of prosecutions in CI related to TBML.
- j) ODPP - 2017 - 2020 Mutual Legal Assistance Statistics on MLAs related to TBML.
- k) RCIP - 2017 - 2020 statistics on the direct intern. coop. requests related to TBML and identifying the facts of the cases and types of crimes/amounts involved.
- l) GOLD SMUGGLING CASE STUDY.
- m) Open-source information on TBML schemes involving the Cayman Islands.
- n) Statistics on awareness-raising and outreach events on TBML conducted by any authority in CI.

#### CAYMAN ISLANDS SPECIAL ECONOMIC ZONE (SEZ)

- a) Interview with DCI staff responsible for the registration of SEZ companies.
- b) Interviews with SEZ Board Members and Management.
- c) Open Sources on SEZ companies involved in alleged illegal conduct.