

# CAYMAN ISLANDS MONETARY AUTHORITY



ANNUAL REPORT 2001

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## MISSION STATEMENT

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### THE CAYMAN ISLANDS MONETARY AUTHORITY

The Cayman Islands Monetary Authority (the Monetary Authority) is a statutory agency created by the Cayman Islands Government to preserve the value and integrity of the Cayman Islands currency and to maintain a sound and competitive financial services sector that is regulated efficiently and in accordance with international standards, in which the public, both local and international, can have confidence.

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## DIRECTORS AND SENIOR OFFICIALS

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As at December 31st 2001

### BOARD OF DIRECTORS

Hon. George McCarthy	C.P.A., O.B.E., J.P. (Chairman)
Richard Chalmers	M.A.
Peter Tomkins	M.B.E.
Jennifer Dilbert	B.A.
John Bourbon	MSc., F.C.I.B., F.Col. (Managing Director)
Michael Austin	M.B.E., F.C.A.
Arthur Hunter	O.B.E.

### SENIOR OFFICIALS

John Bourbon	Managing Director
Cindy Scotland	General Manager; Head Currency Operations
Shan Whittaker	Acting Deputy Head Currency Operations
Anna McLean	Head of Banking
Karl Adamsons	Deputy Head of Banking
Reina Ramos	Deputy Head of Banking
Gordon Rowell	Head of Insurance
Mary Lou Gallegos	Deputy Head of Insurance
Chris Collins	Superintendent, Health Insurance
Mitchell Scott	Acting Head of Investments
Dwight Carter	Deputy Head of Investments
Patrick Bodden	Head of Fiduciary Services
Don Ebanks	Head of Compliance
Langston Sibblies	Legal Adviser
Simone March-Tomkins	Legal Counsel
Paul Byles	Head of Policy and Research
Lisa Bowyer	Deputy Head of Policy and Research
Neil Glasson	Head of Information Systems

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## CHAIRMAN'S STATEMENT

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The economy as a whole slowed in 2001 with a growth rate of 1.5% compared to a growth rate of 3% in 2000. The main reason for this was slower growth in the United States economy and the impact of the terrorist attacks on the World Trade Centre and Pentagon on September 11th on the tourism industry.

In spite of the slow down in the economy, the year 2001 proved to be one of recognition and achievement for the financial services industry. Significant strides were made in the enhancement of the financial services industry in which the Monetary Authority played a major role. Of most significance was the removal of the Cayman Islands in June from the Financial Action Task Force (FATF) list of non-cooperative countries and territories. This required the successful conversion of elements of industry and regulatory practice into law. Indeed the FATF commended the Cayman Islands on the concrete steps taken to implement legal reforms and the significant improvements in its anti-money laundering systems.

There should be no doubt that the Cayman Islands is fully committed to the fight against money laundering, and that it wishes to continue to play an active role in the global anti-money laundering initiative. This includes preventing the use of the financial system by terrorists, and all possible assistance to the United States Authorities in this regard was pledged in the immediate wake of September 11th. The strong compliance culture within the financial services industry regarding 'know your customer' and suspicious activity reporting has demonstrated to date the necessary vigilance in discharging our obligations as a major financial centre, particularly now in the area of terrorist financing. The Monetary Authority has ensured that all financial services providers have examined their records in the light of information issued by the U.S. Authorities and other reliable sources on individuals and organisations suspected of terrorist involvement. This vigilance will continue.

The terrain in financial services will be most successfully navigated by jurisdictions that maintain sound regulatory frameworks that are responsive both to legitimate business needs and relevant international standards. The Cayman Islands financial services sector is proof that a vibrant business culture and a strong compliance culture are mutually reinforcing. The Monetary Authority appreciates its guardian role and has as its continuing mission the provision of a first class regulatory service for the Cayman Islands.

As Chairman of the Board of Directors of the Monetary Authority, I would like to extend a warm welcome to our new board member, Mr. Arthur Hunter and thank all the staff for their commitment and hard work throughout the year.

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## MANAGING DIRECTOR'S STATEMENT

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The year 2001 was a year of change and challenge for the Cayman Islands Monetary Authority. The highlight for the year was the recognition by the Financial Action Task Force that the Cayman Islands are compliant with international anti-money laundering standards. This was a landmark achievement for the Cayman Islands and reaffirms Cayman's commitment to the international fight against financial crime.

During the year the Authority continued its strong and productive partnership with government and industry in the enactment and amendment of legislation and the development of sound guidance to the financial services industry on the detection and prevention of money laundering. A significant contribution to this area was the issue of the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. Through the Guidance Notes consistency across the financial sector in the interpretation and application of the Money Laundering Regulations has been achieved.

Amendments to the Banks and Trust Companies Law, the Mutual Funds Law, the Insurance Law and the Company Management Law all served to enhance the levels of due diligence conducted during the licence application process and to ensure that all applicants meet the 'fit and proper' criterion. As a member of the Basel Committee's Banking Supervision Working Group on Cross Border Banking, the Authority enacted a further amendment to the Banks and Trust Companies Law that required private banks that are not subsidiaries of international banks to have a physical presence in the Cayman Islands. This further demonstrated the Monetary Authority's commitment to international standards of supervision and regulation.

The Monetary Authority has continued to expand in terms of staff in order to carry out its mandate effectively. An additional 23 staff were recruited in 2001 bringing the staffing complement to 90 and moving the Authority closer to its optimum level.

The Managing Director's Committee established in 2000, proved to be a useful tool in the strengthening of internal systems and procedures and I would formally like to thank all of the Heads of Divisions and their respective staff for all of their hard work and contributions throughout the year.



## SECTOR OVERVIEW

### BANKING

The Cayman Islands continued to be home to over 40 of the world's top 50 banks and major international banks from 65 different countries around the world reaffirming its position as a leading international financial centre.

The number of banks licensed in the Cayman Islands at the end of 2001 was 427 compared to 464 in 2000. The reduction in the number of licensees is typical of the continuing global trend of mergers and consolidations. Domestic banks are keeping pace with technological developments within the sector. One domestic bank launched Internet banking in 2001 and another put its platform in place.

The main issues affecting the banking sector were the continuing trend of amalgamations and acquisitions, the introduction of internet banking, and the implementation of retrospective due diligence checks as specified in the Money Laundering Regulations.

Under the Banks and Trust Companies Law, (2001 Revision), banking licences are issued in two categories. Category "A" banks provide services to domestic and international markets. Category "B"

banks usually provide services to international markets and facilitate inter-bank transactions. At the end of 2001, there were 31 Category "A" banks and 396 Category "B" licence holders; 113 of all licence-holders had a physical presence on the Islands. Table A provides a breakdown of Banking and Trust licences.

Total international claims and liabilities booked through banks in the Cayman Islands at the end of December 2001 were reported as US\$847.7 billion (2000: US\$804.5 billion) and US\$827.2 billion (2000: US\$786.1 billion), respectively.

The increase in international assets and liabilities respectively was attributed to the increased level of inter-bank flows and lending to support hedge fund activity.

TABLE A: Banking and Trust Licence by Type

LICENCE TYPE	NUMBER	
	DEC 2000	DEC 2001
Banking & Trust Category A	31	31
Banking & Trust Category A	416	386
Banking & Trust Category A (Restricted)	17	10
Total Banking & Trust Companies	464	427
Banks with a physical presence	117	113

In order to carry out its duties effectively and in accordance with Basel standards an additional 7 staff were recruited in the Banking Division during 2001 increasing the staffing complement to 22. Staff additions comprised of 2 Senior Analysts and 5 Analysts.

A significant area of focus was the retrospective due diligence client identification procedures and adherence to the Money Laundering Regulations. The recruitment of Compliance personnel within the Banking industry continued to be a key human resource growth area for the banks. In response to the enhanced regulatory regime the membership of the Compliance Association continued to grow and stood at 77 corporate members as of September 2001.

During 2001 a number of amendments to the Banks and Trust Companies Law were made. Two generic changes were made across all of the regulatory laws. The first change introduced explicit 'fit and proper' criteria for applicants and licensees and the second defined the conditions under which a waiver of prior approval of share transfers for licensees may be granted. The specific change related to the banking sector was in respect of the supervision of privately owned banks. All privately owned banks that are not subsidiaries or branches of international banks are required to have a physical presence on the island by January 2002 or surrender their licence. In practical terms this translated to licensees maintaining adequately staffed offices in the Cayman Islands with proper books, records, policies and procedures. The rationale behind this change was to enable the Authority to conduct on-site inspections of those institutions for which it is the home supervisor.







During 2001, there were 46 full scope inspections conducted locally (44 bank inspections and 2 money services providers inspections) and 21 overseas inspections. Full scope inspections encompass an assessment of all risk areas including credit, interest rate, liquidity and foreign exchange risk, and corporate governance.

The Monetary Authority Law (Amendment) (Regulation of Non-Bank Financial Institutions) Law 2000 (now reflected in the Monetary Authority Law (2001 Revision)) brought credit unions, building societies and money transmitters under the regulation of the Authority. In 2001, there were 9 non-banking financial institutions licensed in the Cayman Islands, comprised of two credit unions, one building society, two currency exchange businesses and four money transmitters. These institutions will be supervised by the Authority's Banking Division.

## INSURANCE

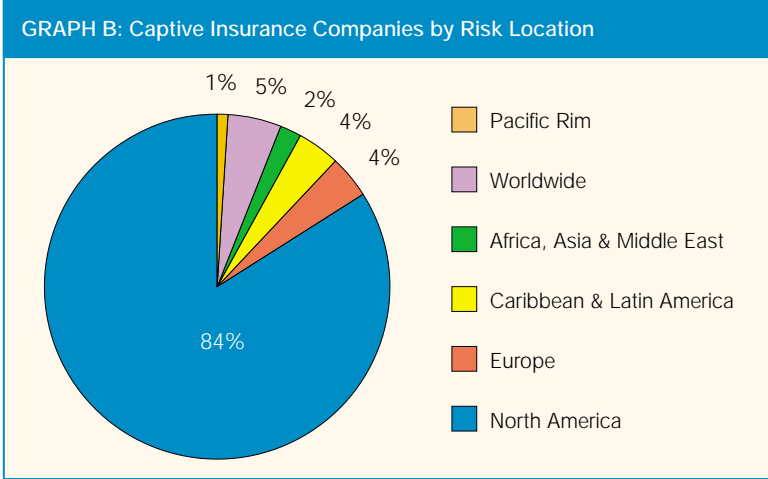
The Cayman Islands' captive insurance market continued to expand in 2001 as evidenced by the increased number of licensees. According to Best's Captive Directory the Cayman Islands was ranked number two in the top ten jurisdictions in the world and accounted for 12% of the total number of captives. The Cayman Islands continued to be at the leading edge of insurance supervision by being one of only two jurisdictions to commence an on-site inspection programme of Insurance Managers of Class 'B' Insurance licensees.

The number of insurance licensees at the end of 2001 was 692. This figure comprised of 30 Class "A" (Domestic) Insurance Companies, 542 Class "B" (Captive) Insurance Companies, 27 Insurance Managers, 23 Insurance Brokers and 70 Insurance Agents. Consistent with reporting in previous years, the total of 542 Class "B" Insurance Companies included Segregated Portfolio Companies (38) licensed but did not include the number of segregated portfolios contained within them.

The main category of captives continued to be Pure Captives, which accounted for approximately 58% of all captive insurance licences. Cayman's Captive Insurance Companies reported year-end premium writings in excess of \$2.9 billion (2000: US\$3.2 billion) and total assets in excess of \$14.9 billion (2000: US\$14.8 billion).

The geographical spread of companies with a Class "B" licence continued to lean heavily towards North America which accounted for 85% of the total, followed by the Caribbean and Latin America with 4% of the total. Graph B illustrates the geographical distribution of captives by risk location.

Growth of Class "B" licensees continued with 47 new licences being issued representing a slight increase on the previous year. The number of Class "B" licences cancelled during 2001 was 20 compared with 26 in 2000.



The growth in captives was a result of the hardening of the insurance market. One of the main reasons for the increase in captive formation was the withdrawal of commercial insurance coverage and severe rate hikes in the U.S Healthcare sector. The Long Term Care industry in particular was hit by the hardening of the market. Rate increases were also evidenced for Workers' Compensation and Property. The Cayman Islands' captive market benefited due to its local captive management expertise in the area of healthcare. Healthcare captives continued to account for approximately one third of the class of business written in 2001. The second largest class of business continued to be Workers' Compensation which accounted for 21% of business written, followed by Property which accounted for 13% of business written.

The domestic market experienced no changes in the number of participants during 2001. Property and Health Insurance continued to be the two main lines of business as measured by premium income. The total gross premium in the Domestic General Insurance market as at December 31st, 2001 was CI\$103 million. Some 28,000 private sector employees in the Cayman Islands were reported as having private health insurance.

Attributable to the increased premium income was the increase in property rates and also the increase in health insurance premiums. A significant local concern in 2001 was the impact of the U.S. recession on insurance company profits, poor reinsurance underwriting results, the events of September 11th and the general increase in global catastrophic events. This has been reflected by sharp rate increases from global reinsurer's which has a direct negative affect on local property rates.



The on-site inspection programme commenced in September 2001 for Class 'B' Insurance Companies and Insurance Managers licensed in the Cayman Islands. The first round of inspections were designed to focus on the policies and procedures of licensees in relation to anti-money laundering. The aim of the inspection programme is to inspect every Insurance Manager by December 31st 2002. By the end of 2001, a total of three Insurance Managers had received a full inspection.

On-site inspections for Class 'A' Insurance companies commenced in 1998. During 2001 a total of five companies had received a full inspection, and a further eight had received focused inspections in the Life, Health and General Insurance areas. The principal focus in 2001 in the domestic market was a full review of all health insurance providers resulting in recommendations for improving efficiencies, for example in the areas of systems and controls and the handling of claims.

The appeal of the Cayman Islands as a captive domicile continued to be in terms of the Islands' service infrastructure. Every licensed captive is required under the Insurance Law (2001 Revision) to have a licensed insurance manager resident on the Islands and must appoint an auditor at the time of their application. The Cayman Islands has a large number of experienced insurance professionals geared to meet the diverse needs of captive companies.



The Insurance Division has maintained its staffing complement at 10, however there are plans to recruit an additional 3 Analysts. The legislative changes to the Insurance Law were in respect of the introduction of an explicit 'fit and proper' criteria for applicants and licensees, and the definition of the conditions under which a waiver of prior approval of share transfers for licensees may be granted. These changes were consistent with the other regulatory laws. It is anticipated in early 2002 that legislation will be passed to effect a wide range of enforcement powers in the Insurance Law including the powers to appoint advisors,

actuaries, controllers and liquidators over Class "A" and Class "B" insurance companies. In addition, there will also be a fee cap placed on segregated portfolio companies limiting total annual fees to a maximum of US\$1,500.

## INVESTMENT SERVICES

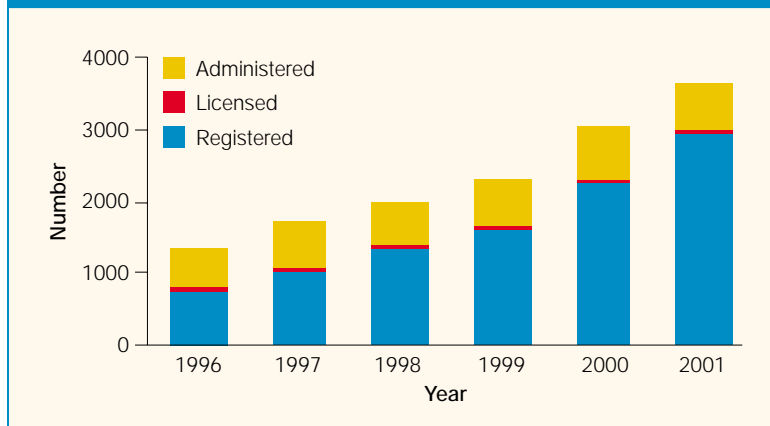
As of December 31st, 2001 there were 3648 mutual funds registered in the Cayman Islands compared to 3014 at the end of 2000, representing a growth rate of 21%. Industry participants estimated the net mutual funds assets as US\$250 billion.

In recent years the Cayman Islands have emerged as one of the leading domiciles for offshore hedge funds. Based upon figures from the 2001 edition of The U.S. Offshore Funds Directory, Cayman now accounts for 58.9% of new offshore hedge funds.

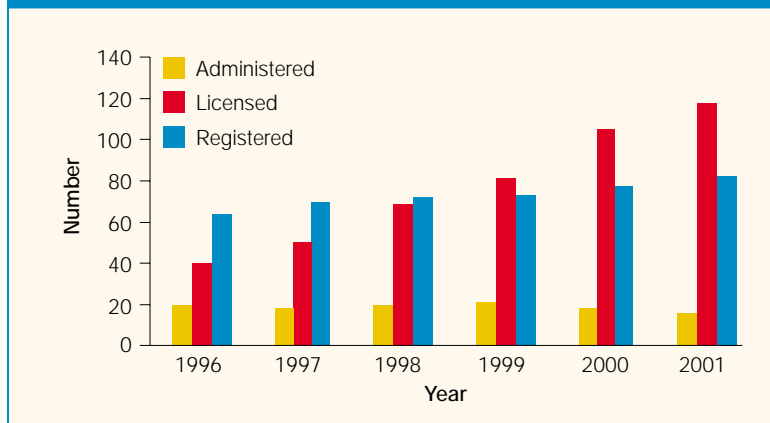
2001 was another year of record growth in alternative asset funds that includes hedge funds, private equity, venture capital, commodities, and managed futures. This continued trend was the result of the on-going integration of international capital markets and the high volatility of the equity and bond markets, particularly after the September 11th terrorist attacks. Investors were looking for investment products that were non-correlated to these traditional markets. The increased acceptability of alternative funds for inclusion in client portfolios has helped fuel the continued growth.

Growth in general is expected to continue in 2002 as investors seek out the higher comparable returns from hedge funds compared to traditional financial products affected by the downturn in the global economy. In addition, the sector is expected to benefit from institutional investors such as insurance companies, pension funds and other financial institutions that are now allocating a larger portion of their investment portfolios to alternative investment products in search of an absolute return on their capital. The sophisticated infrastructure and professionalism of the mutual fund administrators on the Island continues to attract the increasing amount of capital flowing into alternative asset funds.

GRAPH C: Active Mutual Funds by Type



GRAPH D: Active Administrators by Type



During 2001 the Mutual Funds Administrators Licence Applications Guidelines were amended and issued in the form of The Mutual Fund Administrators Licence (Applications) Regulations, 2001. The Regulations provide clarification to all applicants on the application procedures and fees for a Mutual Funds Administrators Licence. The Regulations also detailed the documentation required for establishing the fitness of a director, manager, officer and shareholder (holding more than 10% of the share capital) of a licensee.

The Investments Services Division have prepared guidelines for service providers, in consultation with industry representatives, to assist licensees to comply with the Mutual Funds Law (2001 Revision) and to provide a quick reference to some frequently asked questions (FAQs). Due to the length of the consultation process the initial release date of March 2001 was revised to early 2002. The division also focused on the production of an On-Site Inspections Manual. The on-site inspection programme commenced in September. During the period September to December a total of three full-scope inspections were completed and five focused visits. The primary emphasis of the focused visits was on Anti-Money Laundering practices.



The Investments Division has increased its complement of staff from 11 to 15 and has been restructured into on-site and off-site inspection teams. The on-site team is the lead group for the preparation, planning and follow-up work involved in the inspection process, however all staff actively participate in the inspection process.

In keeping with the other regulatory laws, the Mutual Funds Law was modified to include the introduction of an explicit 'fit and proper' criteria for applicants and licensees, and the

definition of the conditions under which a waiver of prior approval of share transfers for licensees may be granted.

In addition, the government plans to introduce the Securities Investment Business Law in the first part of 2002. The Investments Division will be responsible for the supervision and regulation of entities covered by this legislation. Typical activities include, dealing in securities, arranging deals, investments management and investment advice. Under this legislation, it is the intention that market manipulation and insider dealing will be classified as criminal behaviour for the purposes of international cooperation under the Proceeds of Criminal Conduct Law as well as predicate offences for the existing money laundering crimes.

## FIDUCIARY SERVICES

During the year legislative changes were made that required entities previously holding exemptions in accordance with the Companies Management (Exemption) Regulations (1998 Revision) to make application to the Governor in Council for the grant of either a Corporate Services Licence or a Companies Management Licence. Under the Companies Management Law (2001 Revision) the Corporate Services Licence was introduced. Consequently two licences, namely a Corporate Services Licence and a Companies Management Licence, can be issued.

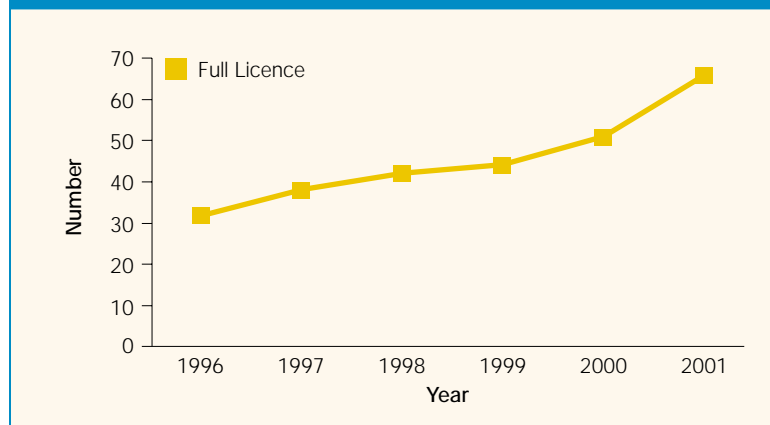
A Corporate Services Licence authorises the holder to offer a narrower range of services compared to a Companies Management Licence. Such services are limited to (a) acting as a company formation agent; (b) providing registered office or business address for a company; (c) providing an accommodation, correspondence or administrative address for a company or for any other person; (d) filing statutory forms, resolutions, returns and notices, and (e) acting as or fulfilling the function of or arranging for another person to fulfil the function of a person authorised to accept service of process on behalf of a foreign company carrying on business in the Islands or to accept any notices required to be served on it.

These changes enable the Authority to set regulatory requirements by reference to the type of services being provided.

The number of Companies Management Licence holders at the end of 2001 was 66.

A further amendment expanded the scope of business of company management to include the function of authorised custodian. The Companies (Amendment) (Custody of Bearer Shares) Law reflected in the Companies Law (2001 Second Revision) provided that where bearer shares were issued by a Cayman Islands company, they must at all times be in the custody and control of a custodian as defined by the Law. The implication of this amendment was that new bearer shares are issued in accordance with the immobilisation requirements from their inception and that existing bearer shares were immobilised. This amendment also serves to ensure that the Cayman Islands are not used for illicit operations.

GRAPH E: Active Company Management Licence Holders



Under the Law a custodian means

- (a) "an authorised custodian" who is a person licensed under the Companies Management Law (2001 Revision) to act as a custodian of bearer shares or a bank and trust company licensed under the Banks and Trust Companies Law (2001 Revision); or
- (b) "a recognised custodian" which is an investment exchange or clearing organisation operating a securities clearance or settlement system and carrying on business in a country specified in Schedule 3 of the Money Laundering Regulations, 2000 and which has been approved by the Authority for the purposes of this Law to act as a custodian of bearer shares.

In addition, the fit and proper criteria and the requirements for share transfers amendments made to the Mutual Funds Law, Insurance Law and the Banks and Trust Companies Law were also reflected in the Companies Management Law (2001 Revision).

At the end of 2001, there were 118 trust services providers licensed in the Cayman Islands and 115 nominee trusts. A total of 8 new trust services providers licences were issued and 6 licences were cancelled.

TABLE B: Type of Trust Service Providers Licence

LICENCE TYPE	NUMBER	
	DEC 2000	DEC 2001
Trust (Full)	54	55
Nominee Trust	62	63
Trust (Restricted)	109	115
<b>Total</b>	<b>225</b>	<b>233</b>

Indications from fiduciary service providers of the Cayman Islands continue to demonstrate steady growth in the wake of recent legislative changes. Both the trust and company sectors of the industry have indicated an optimistic outlook for the year 2002 as they continue to offer competitive financial products in an environment that is compliant with international standards.

During 2001, a total of 12 on-site inspections were conducted on both company managers and trust companies. The Fiduciary Division was established in August 2000 with 2 personnel. During 2001, the staffing compliment was increased to 6. Additional recruits included an additional Senior Analyst, 2 Analysts and an Administrative Assistant.

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## NON - SUPERVISORY DIVISIONS

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### COMPLIANCE DIVISION

The focus of the division in 2001 was on the fulfilment of two primary objectives, namely, to maximise compliance with the Financial Regulatory Laws by all market participants and to ensure the quality of directors of licensees.

The Compliance Division has a cross-functional role and is responsible for the centralisation of the enforcement efforts carried out by the supervisory divisions and the due diligence performed on directors, senior officers and managers of regulated entities. The Division works closely with the Managing Director and the Legal Division.



The Head of Compliance acts as the Money Laundering Reporting Officer for the Authority and works closely with the Financial Reporting Unit regarding any suspicion of money laundering identified in the course of the Authority's supervisory activities. In addition the division is responsible for the dissemination of documents and information in response to non-routine overseas requests where enforcement action is involved.

Since the appointment of the Head of Compliance in 2000 the division has expanded significantly in order to carry out its functions. During 2001 four appointments were made comprised of an Administrative Assistant, an Analyst, a Senior Analyst and a Chief Analyst.

### LEGAL DIVISION

The duties of the Legal Division include: the provision of legal advice to the Board of Directors, Managing Director, and to all the divisions of the Monetary Authority, the preparation of instructions for the drafting of legislative enactments or amendments to the regulatory laws or regulations, the drafting of directives or requirements under the Monetary Authority Law (2001 Revision) for the production of information or documents and the coordination of assistance to overseas regulatory authorities.





During 2001 the division worked closely with the Policy and Research Division in the production of the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands.

An on-going priority activity for the Legal Division is advising on and co-ordinating responses to requests for assistance from overseas regulatory authorities. In accordance with the Monetary Authority Law (2000 Revision) ("the MAL"), the Authority has a specific function to provide assistance to overseas regulatory authorities. In addition the

division also assists the Supervisory and Compliance Divisions in the provision of spontaneous assistance. Spontaneous assistance would normally take place where the division becomes aware of some development that would be of interest to an overseas regulator, for example, where a controller has been appointed for a licensee who may be operating in the jurisdiction of the overseas regulator.

During the year, a Legal Assistant, Para Legal and Legal Counsel were recruited bringing the division complement to four. There are plans to recruit an additional Legal Counsel in 2002 in order to cope with the increasing workload of the division.

In the coming year operational independence will be a key focus for the Authority. The Legal Division will be working with the Managing Director's Committee and the Board of Directors in developing the framework for the operational independence of the Authority.

## POLICY & RESEARCH DIVISION

The Policy & Research Division operates in a cross-functional capacity in the development of policies and guidelines for all of the supervisory divisions, the research and distribution of information, the provision of guidance on the anti money laundering guidance notes, the delivery of in-house training and the production of regular publications such as the quarterly newsletter – The Schooner, and the Annual Report.

During the year the division's primary focus was on the production of the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. The division was instrumental in carrying out the research, drafting the guidance notes, and the co-ordination of the consultation with industry associations. The division also played a central role in the dissemination of information and provision of clarification to licensees in relation to anti-money laundering.

The division delivered a series of internal training sessions on the roles and responsibilities of Authority staff in relation to the Guidance Notes and commenced the provision of in-house advice on the Guidance Notes. Other training included a Supervisory Management course for Senior Analysts, Self Management and Customer Service for Administrative Assistants, a Management Training Seminar for senior management, and a series of Understanding the Industry seminars that provided cross training for Authority staff in understanding the business of Captives and Mutual Funds.

In the latter part of the year the division's priority shifted to the preparation of a formal regulatory framework for the regulatory divisions in preparation for the International Monetary Fund's (IMF) assessment which is expected to take place at either the end of 2002 or early 2003. All policy development is guided by the respective international principles (Basle, IAIS and IOSCO) as well as research into the policy frameworks in relevant jurisdictions. The aim of the division is to produce a set of policies for all regulatory divisions by the end of May 2002 and to revise the current set of procedural manuals for all divisions by the middle of 2002 in preparation for the IMF assessment.

In addition the division was involved in the production of a number of reporting schedules including the "Domestic Banking Survey", the "Co-ordinated Portfolio Investment Survey" and the "Company Managers' Bi-annual Return".

Two additional staff were recruited in 2001, a Senior Analyst and the Deputy Head in order to meet the increased demands of policy development.

## OPERATIONS DIVISION

The Operations Division is charged with the responsibilities for human resources, information systems, procedures, internal policies and the financial operations of the Authority. One additional staff member was recruited for Currency Operations bringing the staffing level to 15. Plans to re-establish the post of Financial Controller were moved forward to 2002. Within Information Systems a Systems Project Analyst/Programmer was recruited in order to meet the increasing requests from the regulatory divisions and the increase in the number of electronic filings.



## DEVELOPMENTS IN INFORMATION TECHNOLOGY AND COMPUTER SYSTEMS

With the increasing demands for quantitative data the Authority currently processes in excess of two thousand two hundred prudential and statistical reports on an annual basis. Ninety percent of this data is delivered to the Authority electronically. The Information Systems Division has facilitated four data forms during 2001 namely, the "Co-ordinated Portfolio Investment Survey", "Captive Insurance Financial Information", "Company Manager's Bi-Annual Return" and the "Domestic Banking Survey Form".



The Co-ordinated Portfolio Investment Survey presented the Information Systems Division with a unique challenge, how to capture data for in excess of two thousand respondents throughout the world. This was achieved with the construction of a web-based form, utilising the latest data-driven technology.

In order to increase the reliability, efficiency, and usability of the Authority's website the underlying technologies on the site underwent a complete overhaul. As the site is completely dynamic with all the pages being held within a database, using Active Server Pages

increased the speed of retrieval generated in real-time. During the conversion process the data was changed to use the latest web-based interchange format namely Extensible Markup Language (XML), with the addition of utilizing database server side scripts written using Structured Query Language (SQL) the site has been optimized to be a far more responsive and reliable site.

In May 2001 the Authority entered into a working relationship with a local Certificate Authority. This will allow the Authority to pass on the latest technological features centred on encryption and a Public Key Infrastructure to the Authority's institutions.

## STAFF RECRUITMENT, PROMOTIONS AND OTHER DEVELOPMENTS

During the year the Monetary Authority recruited 25 new employees and accepted 2 resignations bringing the staffing complement to 90.

The continued growth in human resources is necessary to enable the Authority to carry out its increased programme of on-site inspections that have been implemented across the financial services industry detailed in the respective supervisory divisional overviews, and to fulfill the increased workload of the non-supervisory divisions. In addition to the recruitment drive a number

of persons at a variety of levels within the Authority were promoted. Five Analysts/Officers were promoted to Senior Analyst or equivalent; 4 Administrative Assistants were promoted to Analyst, 2 Senior Analysts to Chief Analyst and one Senior Analyst to the newly created post of Human Resource Manager.

## CONFERENCES, MEETINGS AND SEMINARS

During the year a number of staff attended and delivered a variety of presentations at both local and overseas conferences, meetings and seminars. This helped to raise the profile of the Cayman Islands and ensure that the Cayman Islands are kept abreast of international initiatives and developments. The Authority also hosted various conferences including the 7th Annual Executive Forum on Captives in which the Deputy Head of Insurance presented a workshop on "Understanding Captives - getting the basics right." Senior management delivered a number of presentations at both the Cayman Islands Bankers' Association Conference and at the Compliance Associations meetings and conferences. For example, representatives from the supervisory divisions of the Authority participated in a seminar entitled "Meet the Regulator" in which delegates were given an overview of the supervisory and regulatory work of each division and the Authority as a whole.

In addition, the Managing Director addressed attendees at a training session sponsored by the Cayman Islands Compliance Association in partnership with the Cayman Islands Bankers' Association entitled, "Role, Functions and Obligations of Money Laundering Reporting Officers and Techniques for Training Staff". The Managing Director addressed the conference on "Managing the Relationship with the Regulator" and commented that through working with government and industry the Authority aims to "provide high standards of regulatory compliance and a jurisdiction in which we can all be proud". The Managing Director also participated in a panel discussion on international initiatives at the Cayman Islands Bankers' Association 8th Biennial Conference in November which was also attended by division heads and staff.

International participation included attendance at a joint session of the Offshore Group of Insurance Supervisors (OGIS), the Offshore Group of Banking Supervisors (OGBS) and the Offshore Group of Collective Investment Schemes Supervisors (OGCISS) at the OGIS 8th Working Meeting held in Gibraltar; attendance at the plenary meetings of the Caribbean Financial Action Task Force (CFATF); the meeting of Central Bank Experts on International Financial Statistics in Switzerland; the meeting of Central Bank Experts on International Financial Statistics in Switzerland; the IBC Offshore Trust Summit, and various meetings of the Offshore Group of Banking Supervisors and Financial Regulators meetings. The Authority was also part of the Cayman Islands delegation to the UK-Overseas Territories Financial Regulators meeting held in February and October.

The Managing Director presented a paper on anti-money laundering with specific reference to the role of the supervisory authority in preventing and detecting money laundering at the Cambridge Symposiums on Economic Crime held at the University of Cambridge in England. The conference was also attended by the Legal Advisor and the Head of Compliance.

The Legal Advisor also delivered a paper on anti-money laundering prevention with a focus on the role of financial regulatory authorities, to the Fifth Regional Central Bank Legal Seminar held in Barbados in April.



The Insurance Division continued to maintain its international profile by attending and contributing to key conferences and organizations. Principal among these were the Risk Insurance Management Society (RIMS), the Captive Insurance Company Association (CICA), the American Society of Healthcare Risk Managers (ASHRM), the International Association of Insurance Supervisors (IAIS), the Offshore Group of Insurance Supervisors (OGIS), the International Association of Insurance Financial Agencies (IAIFA) and the annual conference of the Insurance Association of the Caribbean.

The Authority was represented at the Currency Conference, "2001 ... A Banking Odyssey" held in Barcelona in April by the Acting Deputy of Currency and a Senior Currency Officer. The conference provided participants with an in-depth look at the latest innovations in banknote construction, security features and the numerous developments and accessories associated with the handling of currency.

## TRAINING AND DEVELOPMENT

The Authority continued to provide its employees with the opportunity to advance their career and progress within the workplace through the provision of local and overseas training as well as the provision of study leave and financial assistance for professional development.

Mrs. Marylou Gallegos, Deputy Head of Insurance continued to hold the position of Secretary of the Offshore Group Insurance Supervisors and was involved in organising the 2nd Annual Training Seminar in Port Vila, Vanuatu where she acted as Moderator and was part of a panel discussion on "Licensing an offshore insurer - criteria used". Senior Analysts in the Insurance Division attended a training programme entitled, "Regulating for Solvency" at the National Association of Insurance

Commissioners in October. The Head of Insurance was selected by the International Monetary Fund to perform a 'Module 2' assessment. The purpose of the assessment was to conduct detailed examinations of offshore regulatory authorities in relation to accepted international standards based on the assessment methodologies developed by the respective standard setting bodies.

Both the Head of the Banking Supervision Division and the Head of Compliance, attended training courses at the Toronto Centre in Canada, in Banking Supervision and Securities Market Regulation respectively. Bank Analysts and Senior Analysts also attended a variety of training courses at the Federal Reserve during the year including Bank Analysis and Examination, Credit Risk Analysis and an Anti-Money Laundering and Financial Crimes Training course at the Anti-Money Laundering School for Foreign Bank Supervision at the Office of the Comptroller of the Currency in Washington, D.C. In addition, the Authority hosted a one-week Market Risk Analysis and Supervision Seminar in December for Banking Supervision Division staff and supervisors from the region.

The Investment Services Supervision Division hosted a five-day intensive training course, delivered by Investment Education Plc, on Offshore Funds Administration, Fund Management Overview and the Analysis of Financial Statements. Authority staff and delegates from other regional regulatory bodies attended the course.

Thirty-five staff from the Authority and overseas participants attended a Professional Witness training course. Bond Solon, a London-Based Company, who specialize in the training of courtroom skills, delivered the course. All courses hosted by the Authority were tailored specifically to the needs of the Authority.

In addition, the Head of Investments attended the Regional Securities Training Programme on Capital Markets Regulation organised and hosted by the United States Securities and Exchange Commission and the Legal Advisor and Head of Policy both attended the CFATF Mutual Evaluation Training Seminar in Caracas, Venezuela in May to train as country examiners.

Within the Information Systems Division, staff continued to keep abreast of software and other technological developments. The Systems Operations Assistant successfully passed Microsoft courses in Windows 2000 Network and Operating System Essentials, and the Systems Operations Manager updated his Microsoft Certified Professional and Internet to the latest Microsoft Certified Systems Engineer on a Windows 2000 platform. Other staff attended training on the currency sorting machine and foreign exchange. The Head of Information Systems took a five-month sabbatical commencing in September but continued to manage the division utilising amongst other things video conferencing.



Staff across the Authority also attended local training courses including leadership and people skills for managers and securities training.

Several employees commenced educational programmes during the year, some of which were sponsored by the Authority, including two who embarked on MBA programmes; four who are enrolled or continuing the Society of Trust and Estate Planners (STEP) programme, and six employees who are candidates for the Chartered Financial Analyst (CFA) programme.

In addition, during the year five employees successfully completed the ICSA certificate, two of whom achieved distinctions. Of those graduating from the Certificate three progressed onto the Diploma stage. Other educational achievements included one employee who obtained an Associate Degree in Information Systems Management; one employee who was awarded the Diploma in Legal Studies from the Cayman Islands Law School and one employee who passed the Bar examinations and was called to the Bar in England and Wales.

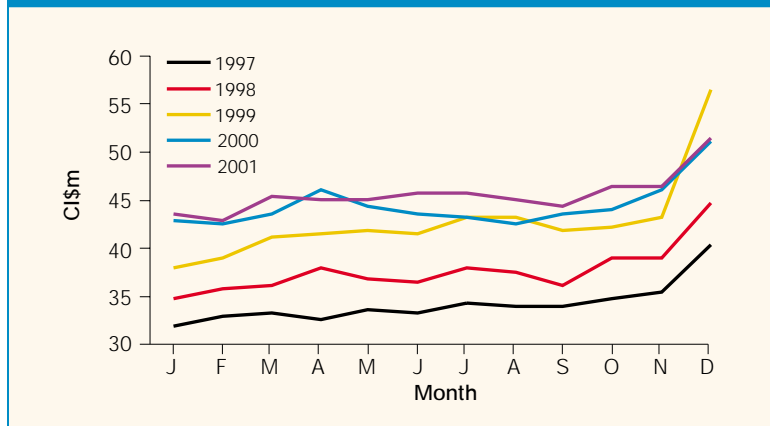
## BOARD OF DIRECTORS

During the year the Board of Directors held ten meetings. Mr. Arthur Hunter was appointed as a new board member during the year. Mr. Hunter established the local law firm Hunter and Hunter and was a founding member and first president of the Cayman Islands Law Society. Mr. Hunter, who has retired from public practice, is highly regarded both locally and internationally and the Board extends a warm welcome to him.

## CURRENCY ACTIVITIES

The Authority, through its Currency Department, is responsible for the issue, re-issue, and withdrawal of the Cayman Islands currency notes and coins against the US dollar in its dealings with the seven local retail banks, and is the sole issuing Authority of Cayman Islands currency. These retail banks are British American Bank, Barclays Bank PLC, Bank of Butterfield International (Cayman) Ltd., Cayman National Bank, Scotiabank, CIBC Bank & Trust Company (Cayman) Ltd., and the Royal Bank of Canada. The department is also responsible for administering the sale and redemption of numismatic coins to and from local and overseas collectors.

GRAPH F: Currency in Circulation by Month (1997-2001)

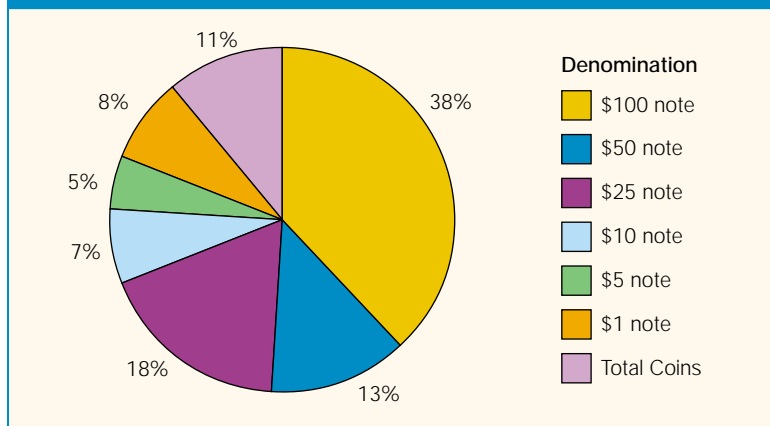


In spite of the economic effect of the slowdown in tourism as a result of the September 11th terrorist attack the demand for local currency remained relatively stable.

During 2001 the Authority re-printed the "C" Series \$10, \$5 and \$1 banknotes to replenish stocks. The only change to these notes was the law reference line which also included 2001 as being the year of issue. The \$50 banknote was also re-printed to replenish stock and to upgrade the security features to bring them in line with the rest of the "C" Series family of banknotes. No circulation or numismatic coins were minted during 2001.

As at December 31st 2001 currency in circulation (excluding numismatic coins) stood at \$51.3 million (\$45.5 million in notes and \$5.8 million in coins). This represented a 4% increase from \$51.1 million the year before. Total notes withdrawn from circulation and destroyed in 2001 were \$3,248,762.

GRAPH G: Currency in Circulation by Denomination



The Authority's Fund Managers continued to operate using the investment guidelines of security, liquidity and income. As at 31st December 2001, the Total Currency Reserve Assets stood at \$67.8 million representing 132% of demand liabilities. This was comprised primarily of US government agency-issued discount notes and mortgage-backed securities.



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## LEGISLATIVE CHANGES

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### LEGISLATIVE CHANGES TO COMBAT MONEY LAUNDERING AND OTHER FINANCIAL CRIMES

During 2001, a number of amendments were made to existing law governing the financial services industry. These changes were made to ensure the Cayman Islands was fully compliant with the revised anti-money laundering standards produced by the FATF in February 2000 and respond to a number of recommendations made by the KPMG Report issued in October 2000.

A series of amendments were incorporated into the Proceeds of Criminal Conduct Law, 2001 (PCCL). This is the primary legislation in the Cayman Islands for anti-money laundering that covers all businesses and individuals. The Proceeds of Criminal Conduct (Amendment) (Financial Intelligence Units) Law, reflected in the PCCL (2001 Revision) enabled the Financial Reporting Unit to cooperate with non-law enforcement counterparts. This widened the ability of the FRU to share information with 'financial intelligence units' (FIU) that are administrative as well as those that are law enforcement units. As a result of this amendment the FRU was eligible to join the Egmont Group and did so in June 2001. The Egmont Group is an informal group, comprised of 58 members that provides a forum for FIUs to improve support to their respective national anti-money laundering programmes.

The Proceeds of Criminal Conduct (Designated Countries) (Further Designation of Countries) Order, 2001 expanded the countries to which judicial cooperation can be provided under the PCCL for the purposes of restraint and confiscation of the proceeds of crime. The list included all FATF countries.

The Money Laundering Regulations, issued under the PCCL, were also amended in 2001. The first change issued under The Money Laundering (Amendment) (Client Identification) Regulations, 2001, set a deadline of 31st December 2002 for retrospective client verification on business relationships existing prior to the enactment of the Regulations. The second amendment issued under The Money Laundering (Amendment) (Electronic Payments) Regulations, 2001, amended the circumstances under which an exemption to the evidence of the identity of the applicant would be made. The change made evidence of identity necessary where onward payment is made that does not result in either a reinvestment on behalf of the applicant with the same institution engaged in relevant financial business; or is a payment made directly to the applicant. An amendment was also made to Schedule 2 of the Regulations to include the conduct of securities investment business in the list of activities falling within the definition of "relevant financial business."

Other changes updated the list of Schedule 3 countries and territories that are recognised as having equivalent anti-money laundering legislation to the Cayman Islands and the list of Stock Exchanges approved by the Authority. The significance of these changes are in relation to the interpretation and application of the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. The Guidance Notes state that documentary evidence of identity will not normally

be required if the client, amongst other things, is a financial institution in a country with equivalent legislation as listed in Schedule 3 of the Money Laundering Regulations, or is a company quoted or listed on the Cayman Islands Stock Exchange or other market or exchange as approved by the Authority. Inclusion on the Schedule 3 list is also relevant for financial services providers in identifying those entities which they can rely upon for due diligence.

## FIT AND PROPER TEST

The Banks and Trust Companies (Amendment) (Prudent Management) Law, 2001; The Insurance (Forms) (Amendment) (Licence Applications), 2001; The Mutual Funds (Amendment) (Prudent Administration) Law reflected in the Mutual Funds Law (2001 Revision), and the Companies Management (Amendment) Law, reflected in The Companies Management Law (2001 Revision) were all implemented in 2001. The amendments were designed to make explicit certain regulatory practices regarding the screening of operators and controllers of both applicants for licences and existing licensees.

The amendments provided for the prudent management of licensees and specifically legislated the criteria for a fit and proper director, manager, officer or shareholder of a licensee. The amendments provided for the documentation required for establishing the fitness of a director, manager, officer and shareholder (holding more than 10% of the share capital) of a licensee. In addition, the regulatory laws were amended to restrict the power of the Governor to exempt a company from seeking permission to transfer their shares. Only those companies whose shares are traded on a recognised stock exchange can be exempted from this requirement.

These regulatory practices are consistent with international standards and aim to prevent financial service providers from being operated and controlled by inappropriate persons.

## MONETARY AUTHORITY LAW

The Monetary Authority (Amendment) (International Cooperation) Law reflected in the Monetary Authority Law (2001 Revision) allowed the Authority to obtain specified information or documents from (i) licensees, (ii) connected persons as defined by the Law and (iii) persons reasonably believed to have relevant information, subject to statutory confidentiality provisions.

The Law gave the Authority the ability to exercise its powers to obtain information on behalf of an overseas regulatory authority (ORA). The Law only authorises disclosure of information to an ORA if the Authority is satisfied with certain conditions specified in the Law.



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## FINANCIAL REPORTING & DATA COLLECTION

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### ELECTRONIC-FILING

In 2001 electronic filing was expanded to include the collection of data on Class 'A' domestic banks, company managers and on the investment holdings by banks and mutual funds domiciled in the Cayman Islands. In addition, in June the Authority implemented e-filing of financial statements for Captive Insurance Companies.

### LOCATIONAL BANKING STATISTICS

From March 2001, banks were required to complete the Locational Banking Statistics on a quarterly basis; prior to this date the data was submitted bi-annually. The form collects information on international claims and liabilities by currency and by residency. The aggregate information is submitted to the Bank for International Settlements (BIS) for inclusion in the Locational Banking Statistics Report.

An important use of the data is that it can provide an early indication of interesting developments in global finance. Due to financial intermediation of entities located in the Cayman Islands, the pattern of financial flows through the reporting banks can give a clear reading of international financial developments.

### BANK SUPERVISORY REPORTING FORM

Commencing March 2001 all banks and branches were required to file the BS Forms on a quarterly basis. The BS Form seeks to provide a breakdown of assets, liabilities and shareholders equity, a statement of income and expense as well as related party transactions, the concentration of lending and deposits, fiduciary activities and security investments.

The data is used by Banking Supervision Analysts to compute various ratios and to conduct a general assessment of the financial condition of licensees.

### DOMESTIC BANKING SURVEY

The first issue of the quarterly Domestic Banking Survey for Class "A" domestic banking data was made in September. The survey replaced the Statement of Assets and Liabilities previously collected by the Economics, Research and Development Office. The focus of the survey is on the activities of domestic banks in respect of loans made, deposits received, interest rates and cheque clearing. The results of the survey will be made available via the Authority's website.

## COMPANY MANAGERS' REPORTING SCHEDULE

In December, a revised bi-annual reporting schedule was launched in order, for the Fiduciary Services Division to collect information needed to monitor and advise licensees, and to assist the division in carrying out its regulatory responsibilities. The statistical information collected will provide industry trends and other pertinent information that can be utilized in the monitoring of licensees.

## THE COORDINATED PORTFOLIO INVESTMENT SURVEY (CPIS)

The Cayman Islands will be participating in the CPIS in 2002. The aim of the CPIS is to collect information on investment holdings by banks and mutual funds domiciled in the Cayman Islands in equity, short-term debt and long-term debt securities issued by unrelated residents. The information will be submitted in aggregate form to the International Monetary Fund. The survey results will be used to facilitate a comparison of international data and provide an understanding of Cayman's impact on global financial intermediation. An earlier survey, conducted for end-December 1997 mainly in industrial countries identified cross-border portfolio investments valued at US \$74.4 trillion, however this excluded small island economies such as the Cayman Islands which are estimated to account for approximately \$1 trillion. In recognition of their importance, the 2001 survey aims to extend coverage to small island economies.

The Cayman Islands supports the survey and recognises that the CPIS can serve as a catalyst to the implementation of a mechanism to measure direct portfolio investment as well as serving to facilitate a deeper understanding of the movement of capital in the global financial system.

During the year extensive liaison and preparation was done for the launch of this survey by the Policy and Research Division, this included the organisation of a focus group of industry representatives and a series of seminars for industry participants. The aim of the focus group was to introduce the survey to industry representatives and seek their input on any potential challenges that they anticipate may impact on the success of the survey.

The Authority launched the annual Coordinated Investment Survey (CPIS) at the end of 2001 for completion by March 2002.

## ANNUAL STATEMENT OF OPERATIONS

In 2001 the Insurance Division introduced a requirement that all Class 'B' Insurance Companies submit an Annual Statement of Operations. This return provides the division with an up-to-date summary of the activities of each licensee and details any material changes in the circumstances of the licensee from the position previously advised. All returns for 2002 are to be filed with the Insurance Division, by email, no later than end February 2002.

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## REGULATORY DEVELOPMENTS & INTERNATIONAL ISSUES

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### FINANCIAL ACTION TASK FORCE REPORT ON NON-COOPERATIVE JURISDICTIONS

In June 2001, the Cayman Islands were removed from the Financial Action Task Force's list of Non-Cooperative Countries and Territories. In its report the FATF commended the Cayman Islands, stating that it had "taken concrete steps to implement legal reforms," and cited "significant improvements in its anti-money laundering systems." The FATF also withdrew the application of FATF Recommendation 21 to de-listed countries, which meant that FATF members no longer issued business advisories to financial institutions about de-listed countries.

The de-listing was a result of an inspection by The Review Group of the Americas of the FATF of Cayman's regulatory regime during April 30th - May 1st. The focus of the inspection was an assessment of how the legislative changes enacted in the Cayman Islands worked in practice and to what extent they addressed the deficiencies identified by the FATF in January. The de-listing was acknowledged by the Managing Director as "... a vindication of all the work we have been doing over the last 12 months, and it represents a vote of confidence in the staff of CIMA, the FRU and the financial industry in general." This was reiterated by the Honourable George McCarthy, Financial Secretary of the Cayman Islands who also commented on the importance of keeping ahead of international anti-money laundering initiatives. "As a major international financial centre, we are committed to ensuring that we keep pace with international standards. We remain focused on the principles, and recognise that our regulatory authorities and financial services providers must remain ever-vigilant."

During February 2002, the Cayman Islands will be participating in the Caribbean Financial Action Task Force's (CFATF) second round of Mutual Evaluation. The examination will be based on the FATF and CFATF Recommendations and the FATF 25 Point Criteria on the Non-Cooperative Countries and Territories.

### MONEY LAUNDERING GUIDANCE NOTES

The Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands were issued in June 2001. The Guidance Notes were the product of a close working relationship between the Monetary Authority and an Industry Focus Group comprised of representatives from both the private and public sector, followed by wider industry consultation with relevant industry associations.

The Guidance Notes provide transparency and consistency in the interpretation and implementation of the Money Laundering Regulations in relation to the key areas of client identification and verification; record keeping procedures; internal reporting procedures; reporting suspicious transactions; staff training and awareness of money laundering issues; the on-going monitoring of business relationships, and industry specific guidance.

## ANTI-MONEY LAUNDERING BODIES

During the year a number of bodies were established to ensure that the Cayman Islands stays abreast of international anti-money laundering initiatives and that training and awareness is available for all financial services providers.

The Cayman Islands Government established the Anti-Money Laundering Oversight Group. The group is comprised of the Managing Director of the Authority, the Financial Secretary, the Attorney General, the Commissioner of the RCIP, and the Director of the Financial Reporting Unit (FRU). This is a high level anti-money laundering group mandated to oversee implementation of the Cayman Islands' anti-money laundering regime, ensure effective collaboration between regulators and law enforcement, and to monitor interaction and co-operation with overseas agencies. During the year the group reviewed progress with the FATF implementation plan and identified areas where action was required.

In order to ensure that the Guidance Notes remain current and up-to-date with recommended best practice a Guidance Notes Committee (GNC) was established to approve amendments to the Guidance Notes. Membership is comprised of representatives from the Monetary Authority, the Financial Secretary's Office, the Attorney General's Office and Industry Groups. The Cayman Islands Anti-Money Laundering Group (CAMLG) comprised of members from the Authority, industry, FRU and Customs, was set up to co-ordinate training and awareness. The CAMLG website will be launched in 2002, the content will include for example, scheduled training events and conferences, frequently asked questions on the Guidance Notes and an on-line library.

## INDEPENDENCE

As reported in the Annual Report, 2000 the Cayman Islands received a favourable review on its financial regulatory system in The Review of Financial Regulation in the Caribbean Overseas Territories and Bermuda, conducted by KPMG. One of the priority areas identified was the legislation for the enactment of an independent regulatory authority. In its response to the KPMG Report the government made a commitment to enact legislation for the operational independence of the Authority.

The importance of independence has long been recognised by international organisations such as the International Organisation of Securities Commissions and the Bank for International Settlements as an essential prerequisite for proper supervision. For the Authority independence will place

complete operational decision making in the hands of the Board of Directors of the Authority and will remove the need for the approval of Executive Council for certain decisions such as the approval of licences. Additionally, it will increase the power of the Authority in terms of its enforcement powers. The aim is for the Authority to move to operational independence in 2002 following the finalisation of administrative arrangements and appropriate legislative changes.

## FIGHT AGAINST TERRORISM

The Cayman Islands joined forces with other countries in the fight against terrorism and encouraged all licensees to increase their vigilance and help stop the flow of funds to fuel terrorist activities. Prior to the tragic events of September 11th, the focus of Authority like other regulators was primarily directed towards the identification and prevention of financial transactions emanating from the proceeds of criminal conduct. The emphasis has now shifted to incorporate terrorist financing.

All licensees/registrants were notified that the Afghanistan (United Nations Sanctions) (Overseas Territories) Order 2001, (Statutory Instruments 2001 No.392) and the Afghanistan (United Nations Sanctions) (Overseas Territories) (Amendment) Order 2001 (Statutory Instruments 2001 No. 2558) are in effect in the Cayman Islands. These prohibited the making of funds available to or for the benefit of Usama bin Laden or the Taliban or persons connected with him or them, and empowered the Governor to direct that funds identified as such are not made available to those persons or entities. In addition, the facilitation of prohibited activities and failure to disclose knowledge or suspicion of such was identified as an offence.

## FINANCIAL REPORT

The annual financial statements of the Authority as at December 31, 2001 are shown on pages 35 to 46. Total Assets of \$68.5 million (2000: \$69.8 million) included \$67.8 million (2000: \$68.8 million) of Currency Reserve assets representing investments and current, call and fixed deposits. Short-term investments are comprised of US issued discount notes. Long-term investments are comprised of US government agency-issued mortgage-backed securities. Investment decisions were made in accordance with the Authority's principal investment objectives of security, liquidity and income. A total return of 5.27% (2000: 7.4%) was earned in 2001 on the investment portfolio.

Total liabilities of \$54.0 million (2000: \$55.7 million) included \$51.4 million (2000: \$51.1 million) of demand liabilities for currency in circulation, which are fully secured by the Currency Reserve assets as required by Section 28 (7) of the Monetary Authority Law, (2001 Revision).

Total reserves and capital was \$14.6 million (2000: \$14.1 million) and the General Reserve was maintained at 15% of demand liabilities as required by Section 6 (2) of the Law. The General Reserve requirement increased by \$0.1 million (2000: decreased by \$0.8 million).

Net income of \$3.5 million (2000: \$4.6 million) for the fiscal year was mainly due to sound investment decision-making and the implementation of effective cost reduction techniques.

The Board approved the transfer of \$0.4 million (2000: \$0.1 million) to the Currency Issue Reserve to provide for future currency reprints. Approval was also given for the transfer of \$0.5 million (2000: \$0.8 million) to the Paid Up Capital Account. After these transfers, the Authority was still able to exceed its budgetary target by transferring \$2.6 million (2000: \$4.5 million) to the General Revenue of the Cayman Islands Government.





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## APPENDIX A -

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### RELEVANT LEGISLATION

The Monetary Authority Law (2001 Revision)

The Banks and Trust Companies Law (2001 Revision)

The Companies Management Law, (2001 Revision)

The Proceeds of Criminal Conduct (2001 Revision) The Money Laundering Regulations, 2000

Misuse of Drugs Law (2000 Revision)

Confidential Relationships (Preservation) Law (1995 Revision)

Insurance Law (2001 Revision)

The Mutual Funds Law (2001 Revision)

The Health Insurance Law (2000 Revision)

The Building Societies Law, (2001 Revision)

The Cooperative Societies (Amendment) (Credit Unions) Law, 2000

The Money Services Law, 2000

Money Services Businesses Regulations, 2001



## Cayman Islands

Cayman Islands Monetary Authority

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### CERTIFICATE OF THE AUDITOR GENERAL

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To the Shareholder and Directors of the Cayman Islands Monetary Authority

In accordance with the provisions of Section 36(2) of the Monetary Authority Law (2001 Revision) and Section 45(1) of the Public Finance and Audit Law (1997 Revision), I have audited the financial statements of the Cayman Islands Monetary Authority for the year ended 31 December 2001 as set out on pages 35 to 46.

### RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR GENERAL

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

### BASIS OF OPINION

My examination was made in accordance with International Standards on Auditing. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

### OPINION

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 31 December 2001 and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and comply with the Monetary Authority Law (2001 Revision).

## MATTER OF EMPHASIS

Without qualifying my opinion I draw attention to the following item requiring emphasis.

## PENSIONS

As disclosed in Note 10 of the financial statements, pension contributions for eligible Caymanian employees of the Authority are paid to the Public Service Pensions Fund (the "Fund") which is administered by the Public Service Pensions Board (the "Board"). As a result of insufficient relevant and reliable funding valuation information acceptable to, and agreed by the Authority, the defined benefit pension plan has been accounted for as if it were a defined contribution plan. Therefore, no past service liability or unpaid current service contributions have been recognised in these financial statements. In the event that sufficient relevant and reliable funding valuation information becomes available to, and is agreed by, the Authority, it may be necessary to (a) recognise in future financial statements any past service liability or unpaid current service contributions and (b) increase annual pension contributions to extinguish the liability so recognised.



N K Esdaile  
Auditor General

30 April 2002

# FINANCIAL STATEMENTS

## CAYMAN ISLANDS MONETARY AUTHORITY BALANCE SHEET

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

ASSETS	Note	2001	2000
<b>Currency Reserve Assets</b>			
Long-Term Investments	2b,3	9,592,698	23,695,311
Short-Term Investments	2b,3	54,484,862	41,562,412
Fixed Deposits	4b	1,268,760	1,215,773
Current and Call Deposits	4a	2,406,217	2,359,206
<b>Total Currency Reserve Assets</b>		<b>67,752,537</b>	<b>68,832,702</b>
<b>Other Assets</b>			
Fixed Assets	2e,5	430,396	435,566
Stocks	2f,6	249,070	227,749
Accounts Receivable		12,529	12,617
Other Receivables and Prepayments		34,455	22,812
Interest Receivable, Foreign Deposits		51,763	231,134
Interest Receivable, Local Deposits		6,371	5,025
<b>Total Other Assets</b>		<b>784,584</b>	<b>934,903</b>
<b>TOTAL ASSETS</b>		<b>68,537,121</b>	<b>69,767,605</b>
<b>LIABILITIES</b>			
Demand Liabilities, Currency in Circulation	7a	51,354,385	51,149,854
Payable to the CI Government	9b	2,566,928	4,473,305
Other Liabilities and Payables	7b	62,651	71,968
<b>Total Liabilities</b>		<b>53,983,964</b>	<b>55,695,127</b>
<b>RESERVES and CAPITAL</b>			
General Reserve	9a	7,703,157	7,672,478
Currency Issue Reserve	9c	300,000	350,000
<b>Total Reserves</b>		<b>8,003,157</b>	<b>8,022,478</b>
Paid Up Capital	9d	6,550,000	6,050,000
<b>Total Reserves and Capital</b>		<b>14,553,157</b>	<b>14,072,478</b>
<b>TOTAL LIABILITIES, RESERVES and CAPITAL</b>		<b>68,537,121</b>	<b>69,767,605</b>

Signed on behalf of the Board, 30 April 2002



George McCarthy, OBE, JP  
Chairman  
Cayman Islands Monetary Authority



Cindy Scotland  
General Manager  
Cayman Islands Monetary Authority

The notes on pages 39 to 46 are an integral part of these financial statements.

## FINANCIAL STATEMENTS

### CAYMAN ISLANDS MONETARY AUTHORITY INCOME STATEMENT

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

INCOME	Note	2001	2000
Government Grants	2d,12	7,010,136	5,266,609
Investment Income	2b	2,841,912	4,056,855
Commission Income		491,506	421,790
Other Income		19,153	5,135
Numismatic Income		18,159	(14,541)
Asset Disposal Gain		4,550	3,280
<b>Total Income</b>		<b>10,385,416</b>	<b>9,739,128</b>
<b>EXPENSES</b>			
Salaries and Other Benefits		4,623,143	3,199,450
General and Administrative		835,005	683,218
Pension contributions	10	356,775	236,552
Depreciation	2e,5	284,417	231,491
Lease rental	8	276,345	232,700
Staff training and Recruitment		201,607	154,520
Official travel		156,190	217,420
Management and Custody fees	3	106,375	111,214
Professional fees		75,278	43,459
Directors fees		16,500	21,500
Foreign Currency Loss	2c	245	363
<b>Total Operating Expenses</b>		<b>6,931,880</b>	<b>5,131,887</b>
<b>NET INCOME</b>		<b>3,453,536</b>	<b>4,607,241</b>

The notes on pages 39 to 46 are an integral part of these financial statements.

## FINANCIAL STATEMENTS

### CAYMAN ISLANDS MONETARY AUTHORITY STATEMENT OF CHANGES IN RESERVES AND CAPITAL

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

	2001		
	General Reserve	Currency Issue Reserve	Paid-Up Capital
Balance at 1 January:	7,672,478	350,000	6,050,000
<i>Transfers in:</i>			
From Net Income	3,453,536		
From General Reserve		355,928	500,000
<i>Transfers out:</i>			
To Currency Issue Reserve	(355,928)		
To Paid-up Capital	(500,000)		
Contribution Payable to C.I. Government	(2,566,928)		
To fund cost of Currency Reprint		(405,928)	
Rounding adjustment	(1)		
<b>BALANCE AT 31 DECEMBER</b>	<b>7,703,157</b>	<b>300,000</b>	<b>6,550,000</b>
	2000		
	General Reserve	Currency Issue Reserve	Paid-Up Capital
Balance at 1 January:	8,438,542	250,000	5,250,000
<i>Transfers in:</i>			
From Net Income	4,607,241		
From General Reserve		100,000	800,000
<i>Transfers out:</i>			
To Currency Issue Reserve	(100,000)		
To Paid-up Capital	(800,000)		
Contribution Payable to C.I. Government	(4,473,305)		
To fund cost of Currency Reprint			
Rounding adjustment			
<b>BALANCE AT 31 DECEMBER</b>	<b>7,672,478</b>	<b>350,000</b>	<b>6,050,000</b>

The notes on pages 39 to 46 are an integral part of these financial statements.

## FINANCIAL STATEMENTS

### CAYMAN ISLANDS MONETARY AUTHORITY STATEMENT OF CASH FLOWS

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	2001	2000
<b>Net Income</b>	3,453,536	4,607,241
Adjustments for items not involving cash:		
Add: Depreciation	284,417	231,491
Less: Gain on fixed assets disposal	(4,550)	(3,280)
<b>Operating profit before working capital changes</b>	3,733,403	4,835,452
Interest Receivable	178,025	(83,596)
Accounts Receivable	88	703,242
Other Receivables and Prepayments	(11,643)	1,847
Other Liabilities and Payables	(9,318)	(25,903)
Stocks	(21,321)	10,977
Cash generated from operations	3,869,234	5,442,019
Cash generated from/(used in) increase/(decrease) in Demand Liabilities	204,531	(5,107,090)
Cost of Currency Notes Reprint	(405,928)	-
<b>Net cash from operating activities</b>	<b>3,667,837</b>	<b>334,929</b>
<b>INVESTING ACTIVITIES</b>		
Net purchase of investments	1,180,163	1,370,118
Acquisition of fixed assets	(279,247)	(175,979)
Proceeds from fixed assets disposal	4,550	3,280
<b>Net cash provided by investing activities</b>	<b>905,466</b>	<b>1,197,419</b>
<b>FINANCING ACTIVITIES</b>		
Contribution Paid to CI Government	(4,473,305)	(1,226,656)
<b>Net cash used in financing activities</b>	<b>(4,473,305)</b>	<b>(1,226,656)</b>
<b>Increase in cash and cash equivalents</b>	<b>99,998</b>	<b>305,692</b>
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>		
Balance at 1 January	3,574,979	3,269,287
Increase	99,998	305,692
<b>BALANCE AT 31 DECEMBER (Note 4)</b>	<b>3,674,977</b>	<b>3,574,979</b>

The notes on pages 39 to 46 are an integral part of these financial statements.

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# NOTES TO THE FINANCIAL STATEMENTS

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## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### 1. ORGANIZATION AND OBJECTIVES

The Cayman Islands Monetary Authority (the "Authority") was established under The Monetary Authority Law, 1996 (the "Law") on 1 January 1997. Prior to 1 January 1997, The Cayman Islands Currency Board (the "Board") was responsible for currency management and the Financial Services Supervision Department ("FSSD") was responsible for financial services' regulation in the Cayman Islands. Under the Law, the Board and FSSD were terminated and their assets, liabilities, reserves and responsibilities transferred and vested in the Authority on 1 January 1997. Under the Monetary Authority Law (2001 Revision), the primary objectives of the Authority are (a) to issue and redeem currency notes and coins; (b) to promote and maintain monetary stability; (c) to promote and maintain a sound financial system; (d) to advise the Cayman Islands Government on banking and monetary matters; and e) to provide assistance to overseas regulatory authorities.

### 2. SIGNIFICANT ACCOUNTING POLICIES

- a) Basis of preparation.* The financial statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Accounting Standards. The reporting currency is Cayman Islands Dollars.
- b) Investments.* Short-term investments are valued, on a monthly basis at amortized cost and long term investments are valued at quoted market value. Unrealized gains or losses are recorded in the income statement.
- c) Foreign Currency.* Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.
- d) Government Grants.* The Authority is dependent upon annual operating grants from the Cayman Islands Government to meet its obligations. The full amount of the grant is treated as income in the year of receipt.
- e) Fixed Assets.* Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Office Equipment and Motor Vehicle; and 33 1/3% for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.



# NOTES TO THE FINANCIAL STATEMENTS

## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

**f) Stocks.** Stocks consist of silver bullion arising from the melt-down of numismatic coins and the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down. Stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.

**g) Numismatic Coins.** The total nominal value of numismatic coins outstanding at 31 December 2001 is \$14,859,702 (2000: \$14,912,817). No liability for redeeming numismatic coins is recognized in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred.

**h) Cash and cash equivalents.** For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 4.)

### 3. INVESTMENTS

The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Monetary Authority Law (2001 Revision). The investment managers were given added investment flexibility following Executive Council's approval in May 2001 to invest in mortgage-backed securities issued by US Government agencies and AAA-rated corporate bonds. Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

#### Long-term investments

Long-term investments are made up of Mortgage-backed Securities stated at market value, with interest rates ranging from 5% to 8.5%. Maturity dates range from 15/10/2003 to 20/4/2025. Although the stated maturity date on one security is over 10 years the expected duration is less than 10 years.

<i>Range of maturities:</i>	<i>2001</i>	<i>2000</i>
0 – 1 Year	–	4,138,080
2 – 5 Years	3,604,424	3,441,133
6 – 10 Years	5,394,324	15,187,562
Over 10 Years	593,950	928,536
<b>Total</b>	<b>\$9,592,698</b>	<b>\$23,695,311</b>

# NOTES TO THE FINANCIAL STATEMENTS

## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### Short-term investments

Discount notes / Treasury Bills		
Maturing from 10/1/02 to 24/1/02	32,069,166	15,479,079
Repurchase Agreement		
Federal Reserve at 1.58% maturing 2/1/02	22,415,696	26,083,333
Total short-term investments, at amortized cost	54,484,862	41,562,412
Market value of short-term investments	54,481,096	41,557,724

## 4. BANK DEPOSITS

The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law, domestic deposits cannot exceed 25% of demand liabilities. At 31 December 2001, domestic deposits represent 6.8% (2000: 6.1%) of demand liabilities.

### CURRENT AND CALL DEPOSITS

Domestic Deposits	Currency	2001CI\$	2000CI\$
Call deposits	KYD	1,570,131	1,362,329
Call deposits	USD	671,457	618,350
Call deposits	GBP	4,902	4,950
Cash on hand	KYD	169	175
Current account	KYD	(18,757)	(62,823)
<b>Foreign Deposits</b>			
U.S. Federal Reserve call account	USD	160,095	109,019
Investment portfolio, call account	USD	18,220	327,206
		2,406,217	2,359,206

### DOMESTIC FIXED DEPOSITS

Fixed deposits	USD	1,268,760	1,215,773
Cash and Cash Equivalents		3,674,977	3,574,979

Interest is paid on domestic call and fixed deposits at rates ranging from 0.65% to 1.4375% (2000: 1.75% to 6.125%) per annum.

Interest of 1.85% (2000: 6.15%) p.a. is paid on foreign call deposits. Deposits with the Federal Reserve are non-interest bearing; however, excess deposit balances are invested daily in repurchase agreements.

# NOTES TO THE FINANCIAL STATEMENTS

## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### 5. FIXED ASSETS

Original Cost	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	Motor Vehicle	Total
Balance at 01/01/01:	306,534	422,915	450,840	174,950	24,600	1,379,839
Additions:	111,536	–	153,890	13,821	–	279,247
Disposals:	–	–	(48,156)	–	–	(48,156)
<b>Balance at 31/12/01:</b>	<b>418,070</b>	<b>422,915</b>	<b>556,574</b>	<b>188,771</b>	<b>24,600</b>	<b>1,610,930</b>

#### Accumulation Depreciation

Balance at 01/01/01:	178,240	303,402	302,053	142,934	17,644	944,273
Depreciation expense:	76,336	84,580	102,368	16,213	4,920	284,417
Depreciation on disposals:	–	–	(48,156)	–	–	(48,156)
<b>Balance at 31/12/01:</b>	<b>254,576</b>	<b>387,982</b>	<b>356,265</b>	<b>159,147</b>	<b>22,564</b>	<b>1,180,534</b>

#### Net Book Value

Cost at 31/12/01:	418,070	422,915	556,574	188,771	24,600	1,610,930
Accumulated depreciation:	(254,576)	(387,982)	(356,265)	(159,147)	(22,564)	(1,180,534)
<b>Net Book Value at 31/12/01:</b>	<b>163,494</b>	<b>34,933</b>	<b>200,309</b>	<b>29,624</b>	<b>2,036</b>	<b>430,396</b>
<b>Net Book Value at 31/12/00:</b>	<b>128,294</b>	<b>119,513</b>	<b>148,787</b>	<b>32,016</b>	<b>6,956</b>	<b>435,566</b>

### 6. STOCKS

	2001	2000
Bullion from the melt-down of coins	136,551	136,255
Coins awaiting melt-down	51,080	39,001
Coins for resale	45,717	37,122
Museum items	15,722	15,371
<b>Total stocks</b>	<b>249,070</b>	<b>227,749</b>

# NOTES TO THE FINANCIAL STATEMENTS

## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### 7. LIABILITIES

*a) Demand Liabilities.* Demand Liabilities represents the value of notes and coins in circulation. These liabilities are fully funded by the Currency Reserve Assets. Under the Law, the Currency Reserve Assets represent external and local assets that: shall only be used to satisfy demand liabilities; shall be segregated from all other assets of the Authority; and shall not be chargeable with any liability arising from any other business of the Authority.

Total demand liabilities comprise:	2001	2000
i) Currency notes in circulation	\$45,518,002	\$45,560,870
ii) Currency coins in circulation	5,836,383	5,588,984
<b>Total</b>	<b>\$51,354,385</b>	<b>\$51,149,854</b>

At 31 December 2001, the value of Currency Reserve Assets was \$67,752,537 (2000: \$68,832,702) representing 132% (2000: 134%) of total demand liabilities. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve – see Note 9.

*b) Other liabilities.* At 31 December 2001, other liabilities included unsettled investment management and custody fees of \$26,487 (2000: \$26,907).

### 8. LEASE OBLIGATION

The Cayman Islands Government leases the premises used by the Authority under a lease agreement dated 15 December 1996. The lease for 8,950 sq. ft. was for an initial period of three years at \$25 per sq. ft., with an option for an additional two years at \$26 per sq. ft, payable monthly in advance. The Authority has taken advantage of this option and renewed the lease agreement at \$26 per sq. ft. effective December 14, 1999. The Authority acquired an additional 2,279 sq. ft. of office space in its own name during 2001. Effective January 1, 2002 the lease agreement will be converted into the Authority's name for the total office space of 11,229 sq. ft at \$26 per sq. ft. The lease will be for an initial 2-year period with 2 x 1-year options to renew. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease.

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# NOTES TO THE FINANCIAL STATEMENTS

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## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### 9. RESERVES AND CAPITAL

- a) General Reserve.** The Authority maintains a General Reserve in accordance with Section 6(1) of the Law. Under Section 8(b) of the Law, the General Reserve must be maintained at 15% of demand liabilities to provide additional funding, if necessary, for demand liabilities and obligations arising from other business of the Authority. On 16 March 1998, the Legislative Assembly passed the Monetary Authority (Amendment) (Reserves) Law, 1998 to reduce total reserve requirements from 130% to 115% of demand liabilities. Reserve assets are held predominantly in United States dollars, with minimal holdings in Cayman Islands dollars and British Pound Sterling.
- b) Reserve Allocation.** Under Section 8 of the Law, the net income of the Authority, after provision for all expenditure and reserves, must be allocated such that the Currency Reserve represents at least 100% of demand liabilities and the General Reserve equals 15% of demand liabilities. Any surplus, after complying with these requirements, must be transferred to the General Revenue of the Cayman Islands Government. On February 15, 2002 the Board of Directors resolved to transfer \$2,566,928 (2000: \$4,473,305) to the General Revenue of the Cayman Islands Government.
- c) Currency Issue Reserve.** During the year, \$405,928 (2000: \$0) was transferred from the Currency Issue Reserve to fund the re-print of a three-year supply of \$50, \$10, \$5 and \$1 banknotes. The Board allocated \$355,928 (2000: \$100,000) to replenish the Currency Issue Reserve and to fund the 2002 re-mint of circulation coins.
- d) Capital.** The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of \$6,550,000 as at 31 December 2001 (2000: \$6,050,000). The Executive Council of the Cayman Islands Government has committed to increasing the Paid-Up capital of the Authority to a minimum of \$10 million by the year 2008, by yearly transfers from surplus, after complying with reserve requirements.

### 10. PENSIONS

- a) Public Service Pensions Plan.** Pension contributions for eligible Caymanian employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer non-contributory Fund, whereby the employer pays both employer and employee contributions. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element. Participants joining after that date became members of the defined contribution element.

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# NOTES TO THE FINANCIAL STATEMENTS

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## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

The Pensions Board has originally prepared separate actuarial assessments and funding schemes for each participating employer. The main actuarial assumptions used were: a retirement age of 55 years, expected rate of return on the Fund's assets of 8%, and expected salary and pension increases of 5% and 3% respectively.

Using the projected unit credit method of measuring costs and obligations, the amended actuarial assessment for the Authority, effective 1 January 1999, assessed the normal annual contribution to be 10.15% of pensionable emoluments, plus an additional 6.44% in respect of the Authority's unfunded past service liability (PSL), which was estimated at \$479,114. The Authority continued to fund 6% employee and 6% employer contributions during 2001. In July 2001, the Pensions Board notified the Authority of the revised minimum normal contribution requirement for Statutory Authorities of 13% effective 1 January 1999. This rate includes a 1% non-retirement benefit contribution which has not yet been implemented by the Authority. Another actuarial assessment is scheduled for 2002.

At the revised rate (13%), the unfunded PSL would be reduced to \$267,076 or an additional contribution requirement of 3.59%. The Authority's management does not accept the PSL calculation because it includes accrual for participants' pensionable service prior to 1997 when the Authority was created and for service in departments and agencies other than the Cayman Islands Monetary Authority.

As a result of insufficient relevant and reliable information acceptable to, and agreed by, the Authority, the pension plan has been accounted for under paragraphs 44-46 of International Accounting Standard 19 as if it were a defined contribution plan. The responsibility for the payment of pensions and benefits to the Authority's eligible employees rests with the Fund and ultimately, the Cayman Islands Government.

The total amount recognised as a pension expense during 2001 was \$356,775 (2000: \$236,552). Nil (2000: Nil) has been recognised in these financial statements in respect of contributions towards PSL.

**b) Cash Supplement in Lieu of Pension.** Prior to 1 January 2000 employees on overseas and certain local contracts were not eligible to participate in the pensions schemes underlying the Fund. These employees received cash supplements of 12% (2000: 12%) of salary in lieu of pension contributions. With effect from 1 January 2000 all overseas and certain categories of locally employed staff became entitled to participate in the Defined Contribution plan. The Authority has not elected to implement this option. The Authority paid \$173,748 (2000: \$135,867) in cash supplements during the year in respect of these officers.

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# NOTES TO THE FINANCIAL STATEMENTS

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## CAYMAN ISLANDS MONETARY AUTHORITY

For the year ended 31 December 2001 (Expressed in Cayman Islands Dollars)

### 11. FINANCIAL INSTRUMENTS

**Credit risk.** Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk.

**Interest rate risk.** The Authority's investments and deposits are at fixed interest rates. The ranges of interest rates and maturity dates are presented in Notes 3 and 4.

**Fair values.** The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts.

### 12. RELATED PARTY TRANSACTIONS

The board of directors of the Authority is appointed by the Cayman Islands Government and consists of the Financial Secretary by virtue of his office and six other directors.

The following Government departments/entities provided services to the Authority during 2001:

- i) Audit Office at a cost of \$10,350 (2000: \$9,000).
- ii) Public Service Pension Board (see Note 10)
- iii) Legal Department.

The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual licence fees and issuer of licences relating to the financial industry. These services are provided at no direct cost to the Government.

The Authority operates on a grant from the Government to cover its Recurrent and Capital Expenditures (see Note 5 for fixed asset purchases). At the end of each financial year the Authority contributes to the government the net operating surplus after fulfilling reserve requirements.

# NOTES



# NOTES

