



THE ANCHOR



Message from the Managing Director



I am excited to introduce the first edition of the Anchor, the Cayman Islands Monetary Authority's (Authority) newest newsletter, which will focus on facts, developments and trends relating to the ever-evolving subjects of anti-money laundering, countering the financing of terrorism/proliferation financing and sanctions. As the Authority continues its efforts to engage stakeholders on matters impacting the financial services industry, The Anchor is our newest tool to communicate with our licensees and people interested in developments in our sectors.

The Authority's role in the fight against financial crime is as significant as that of the participants in the financial system. With robust collaboration, we must all work together to safeguard the financial system against misuse in order to uphold the integrity and reputation of the Cayman Islands as an international financial centre. To that end, The Anchor will allow the Authority to convey relevant information relating to the fight against financial crime on a domestic, regional and international level.

Welcome to The Anchor!

WHAT'S INSIDE

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What is “Ongoing Monitoring”?

“Ongoing monitoring” occurs where a person or entity carrying out relevant financial business (collectively, the “Entity”) continually reviews its clients throughout the relationship on a risk-appropriate basis. Understanding a client, and a client’s business, allows Entities to utilise their professional experience and knowledge of their industry to better appreciate when a client’s activities would warrant filing a SAR.

Entities conducting relevant financial business are required to scrutinise their clients, their client’s activities and transactions during the relationship, and enquire into the source of funds where required. This will allow the Entity to ensure that their clients retain the appropriate level of CDD and risk established at intake. The Entity should also consider reviewing CDD on an engagement or assignment basis.

A thorough ongoing monitoring process allows an Entity to at a minimum:

- Maintain up-to-date client identification and beneficial ownership information
- Determine whether the client’s transactions or activities are consistent with the information provided by the client and the risk assessment conducted by the Entity
- Continuously re-assess a client’s risk classification based on their transactions and activities
- Ensure the purpose and intended nature of the business relationship remains current and that risks are assessed appropriately
- Detect when a client’s activities would warrant the filing of a Suspicious Activity Report.

Entities should have documented board-approved (or equivalent) policies and procedures in place to determine the type, level and frequency of ongoing monitoring for its clients. These policies and procedures should encompass how the results of this monitoring should feed into the risk assessment of the client and the overall compliance programme.

International Standards for AML/CFT

The Cayman Islands has implemented the [Financial Action Task Force’s \(FATF\) 40 Recommendations](#) on the prevention of money laundering and the countering of terrorist financing as well as the financing of proliferation of weapons of mass destruction. The 40 Recommendations are the international standards for effective anti-money laundering and counter terrorist financing and proliferation regimes.

Assessment Against FATF Recommendations

Through a peer review process, jurisdictions are assessed to determine compliance with the Recommendations. The method for assessment is outlined in the [FATF Methodology](#) for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems is a two pronged approach:

1. A technical compliance assessment that relates to compliance with the new 40 Recommendations, the relevant legal and institutional framework of the country, and the powers and procedures of the competent authorities; and
2. An effectiveness assessment that provides the basis for identifying the extent to which a jurisdiction achieves a defined set of 11 immediate outcomes that are central to a robust AML/CTF system.

The Cayman Islands was assessed against the FATF standards in December 2017. The [Mutual Evaluation Report of the Cayman Islands](#) was published in March 2019. The Cayman Islands is committed to remedying the deficiencies outlined in the report to maintain its reputation as a leading international financial centre who upholds AML/CFT standards.



National Risk Assessment

At the heart of a jurisdiction's AML/CFT framework is its evaluation of risks at the national level. FATF Recommendation 1 specifies the need for a country to identify the key money laundering, terrorist and proliferation financing threats that face the nation and ensure mechanisms are in place to mitigate these risks.

The Cayman Islands conducted its first Money Laundering/Terrorist Financing (ML/TF) National Risk Assessment ("NRA") in 2014 to 2015. The results revealed, inter alia:

- Both the Securities and banking sectors, assessed at medium-high, had the highest degree of ML/TF vulnerability.
- The securities sector includes Excluded Persons under the Securities and Investment Business Law (SIBL), which have a higher degree of vulnerability
- The regulatory and supervisory framework within the banking sector is robust; however many banks operating in the Cayman Islands do not have a physical presence within the jurisdiction and are managed by head offices resulting in a higher level of vulnerability.
- Insurance sector assessed as having a medium level of vulnerability. International insurers operating as commercial insurance companies, especially companies engaged in long-term insurance business, may present a higher ML risk compared to other insurers.
- Trust and Corporate Service Providers were assessed to be the medium level of vulnerability to ML/TF. Its vulnerability arises due to the complexity of its international financial transactions.

An overview of the NRA results can be found [here](#). The Authority will continue to engage regulated entities and sectors on the risks posed to their respective sectors and encourage full compliance with the AML/CFT framework of the Cayman Islands to mitigate these risks.

DID YOU KNOW...

On 18 June 2019, amendments to the Securities Investment Business Law were gazetted.

Changes to this law were premised on a number of weaknesses and challenges posed by Excluded Persons to the Authority's regulatory regime and the AML/CFT framework of the Cayman Islands.

The Excluded Persons regime was heavily criticised by assessors in the jurisdiction's Mutual Evaluation Report.

The new [Securities Investment Business \(Amendment\) Law, 2019](#) sees a shift away from the Excluded Person to a two pronged regime:

1. persons who are registered and supervised by the Authority;
2. persons who remain exempt from registration and licensing but still fall under the Authority's oversight for AML/CFT monitoring purposes.