



PRIVATE SECTOR CONSULTATION

Rule on Effective Compliance Programme for the
Prevention and Detection of Money Laundering,
Terrorist Financing and Proliferation Financing
for Financial Services Providers

&

Rule on Compliance with Financial Sanctions and
Targeted Financial Sanctions

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A. Introduction

1. The Cayman Islands Monetary Authority (the "Authority" or "CIMA") seeks consultation and representations from private sector associations concerning the following:
 - (1) **Rule on Effective Compliance Programme for the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing for Financial Services Providers** ("Compliance Rule") (attached as **Appendix I**); and
 - (2) **Rule on Compliance with Financial Sanctions and Targeted Financial Sanctions** ("Sanctions Rule") (attached as **Appendix II**),
(together, the "**Proposed Measures**").
2. Accordingly, CIMA is inviting private sector associations to a consultation for a period of thirty (30) days.
3. Requirements specific to private sector consultation are outlined in Section 4(1)(b) of the Monetary Authority Act (as amended) ("MAA") which states that:

"(1) When this Law requires private sector consultation in relation to a proposed measure –

(b) before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations, and shall give a written response, which shall be copied to all the private sector associations."
4. Section 34(1) of the MAA provides the following:

"(1) After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may -

 - (a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply;*
 - (b) issue or amend statements of guidance concerning the requirements of the anti-money laundering regulations or the provisions of the regulatory laws; and*
 - (c) issue or amend rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes."*

B. Background and Purpose

5. The Caribbean Financial Action Task Force ("CFATF") 4th Round Mutual Evaluation noted CIMA's Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands ("GNs") *"do not meet the criteria of enforceable means as sanctions are not applicable for a failure to comply with the requirements of the GNs."*¹ This assessment indicates a lack of effectiveness and non-compliance with FATF's 40 Recommendations, and it potentially exposes the jurisdiction to significant regulatory, financial, operational, and reputational risks.
6. CIMA's GNs, last revised in 2024, were issued to assist Financial Service Providers ("FSPs") in meeting their Anti-Money Laundering ("AML"), Countering the Financing of Terrorism ("CFT"), and Countering Proliferation Financing ("CPF") obligations. The GNs comply with the Anti-Money Laundering Regulations ("AMLRs"), and, where applicable, reflect the 40 Recommendations and related guidance issued by the FATF. Since its issuance, CIMA has utilised the GNs as a key supervisory tool to inform risk-based inspections, guide supervisory expectations during onsite visits, and support off-site reviews and communications with FSPs.
7. In addition, FATF's Recommendations *"require countries to have 'effective, proportionate and dissuasive sanctions' for failure to comply with AML/CFT requirements."*² To address this gap, it is proposed that specific sections of the GNs be converted into the Proposed Measures to make them legally enforceable.
8. The timing of the introduction of the Proposed Measures is of particular importance, considering the CFATF's 5th Round Mutual Evaluation on-site visit scheduled for 2027. It is critical for the jurisdiction to demonstrate sustained effectiveness and technical compliance under the FATF Immediate Outcomes, and to materially reduce the risk of adverse findings in the next mutual evaluation cycle.
9. Consequently, the Proposed Measures seek to address the abovementioned deficiencies and are consistent with the Authority's legal mandate. Furthermore, the Proposed Measures represent proactive steps to promote the credibility, integrity and competitiveness of the Cayman Islands' financial sector and markets in respect of the prevention and combating of Money Laundering ("ML"), Terrorist Financing ("TF"), and Proliferation Financing ("PF").

The Compliance Rule

10. As part of a broader reform, the Compliance Rule sets out obligations for FSPs to maintain an effective AML/CFT compliance programme. This Compliance Rule supplements the AMLRs and supports elements of the GNs, which will continue to provide practical, non-binding guidelines.
11. The introduction of the Compliance Rule aims to work in tandem with the applicable legislation by introducing a robust framework, comprising of:

¹ [Cayman Islands Mutual Evaluation Report, page 33, paragraph 46](#)

² [FATF Assessment Methodology 2022, page 15, paragraph 35](#)

- (1) the Designation of the Anti-Money Laundering Compliance Officer;
- (2) the Development and Documentation of a Risk Assessment Programme;
- (3) Detailed Policies and Procedures;
- (4) the Delivery of an Ongoing Compliance Training Programme and Employee Screening; and
- (5) the Demonstration of Effectiveness Review.

12. CIMA recognises that FATF's Recommendation 3 requires that the penalties for offences are effective, proportionate, and dissuasive. This Compliance Rule is intended to support the prevention and deterrence of such offences within the jurisdiction, which are criminalised by law and for which persons may be prosecuted and penalised.

13. In addition, the Compliance Rule applies to FSPs that are regulated and supervised by the Authority, pursuant to the regulatory acts, recognising that other FSPs in the Cayman Islands conduct relevant financial business pursuant to the Proceeds of Crime Act ("POCA") and are under the oversight of other Supervisory Authorities.

14. The Authority also acknowledges the significance of the proportionality principle and the application of the Compliance Rule commensurate with the size, complexity, structure, nature of business, and risk profile of an FSP's operations.

The Sanctions Rule

15. The Sanctions Rule outlines requirements for financial sanctions and Targeted Financial Sanctions ("TFS") and provides Regulated Persons³ with clarity on their sanctions-related reporting obligations to the [Financial Reporting Authority](#).⁴

16. In addition, the Sanctions Rule establishes obligations that apply to all persons under the Authority's oversight (irrespective of their business type) notwithstanding that some types of business activities are not considered relevant financial business under the POCA.

17. The elements captured in the Sanctions Rule comprise obligations relating to risk assessments; filing Compliance Reporting Forms and Suspicious Activity Forms; maintaining and updating internal records; reviewing customers and third-party service providers against the [UK Sanctions List](#); asset freezing requirements; and requirements to avoid false positives, *inter alia*.

Application of the Proposed Measures

18. To make the enforceability hierarchy clear: the provisions of the POCA will remain the primary legislative instrument, followed by the AMLRs and then these Proposed Measures as binding and enforceable means. The GNs remain

³ "Regulated Persons" means a natural person, legal person or legal arrangement regulated by the Authority under the regulatory acts.

⁴ The FRA is the Competent Authority in the Cayman Islands, responsible for carrying out certain functions with respect to the implementation of TFS.

supplementary, providing clear guidelines and expectations to promote compliance with enforceable requirements.

19. The Proposed Measures will be issued pursuant to the Authority's statutory powers and shall have the force of law. In the event of any inconsistency or conflict between the Proposed Measures and any prior or existing guidance notes, policy statements, or interpretative materials issued by the Authority, the provisions of the Proposed Measures shall take precedence.
20. Lastly, in any circumstance where the Authority determines that there has been a breach of a provision of the AMLRs, along with a breach of any corresponding rules in the Proposed Measures, the Authority will exercise its discretion in imposing the relevant administrative fine in a manner that is consistent with the applicable laws, and procedures outlined in the [Enforcement Manual – the Regulatory Handbook Volume 2](#) and with consideration to preclude duplication or avoid a double jeopardy scenario for the same breach.

C. International Standards

21. The FATF is the global standard-setter for AML/CFT/CPF and targeted financial sanctions, issuing 40 Recommendations that provide a comprehensive, risk-based framework for countries to design effective AML and sanctions regimes. Together with its FATF-Style Regional Bodies, the FATF conducts mutual evaluations of member jurisdictions using a robust methodology that assesses both technical compliance and the effectiveness of implementation, including whether frameworks address serious predicate offences, permit intent and knowledge to be inferred from objective circumstances, and establish liability for both natural and legal persons.
22. The Proposed Measures have been designed to better align with FATF standards, ensure consistency with international best practice, and establish a framework that is aligned with AML/CFT/CPF regimes implemented across numerous jurisdictions, thereby demonstrating both effectiveness and feasibility.
23. The Proposed Measures will have a deterrent impact through the enforcement of corresponding administrative fines for breaches, which will increase the likelihood that the Cayman Islands will achieve a better assessment result for technical compliance and effectiveness in future assessments.

D. Consistency with the Authority's Functions

24. The Proposed Measures are consistent with the Authority's regulatory functions, as outlined in Section 6(1)(b) of the MAA, which provide that:

"(1) The principal functions of the Authority are –

(b) regulatory functions, namely –

(i) to regulate and supervise financial services business carried on in or from within the Islands in accordance with this Law and the regulatory laws;

- (ii) to monitor compliance with the anti-money laundering regulations; and
- (iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other law;".

25. In addition, Sections 6(3)(a) – 6(3)(c) of the MAA provides that in performing its regulatory and co-operative functions, the Authority shall, *inter alia* –

- "(a) endeavour to promote and enhance market confidence, consumer protection and the reputation of the Islands as a financial centre;
- (b) endeavour to reduce the possibility of financial services business or relevant financial business being used for the purpose of money laundering or other crime;
- (c) recognise the international character of financial services and markets and the necessity of maintaining the competitive position of the Islands, from the point of view of both consumers and suppliers of financial services, while conforming to internationally applied standards insofar as they are relevant and appropriate to the circumstances of the Islands;".

E. Jurisdictional Comparison

26. The Authority conducted a jurisdictional comparison comprising of four (4) jurisdictions – Bermuda, Guernsey, Jersey, and The Bahamas.

27. The jurisdictional comparison examined whether these jurisdictions had implemented enforceable rules (or corresponding measures) to supplement their legislation and to provide clear requirements on the implementation of AML/CFT/CPF and sanctions processes and standards.

28. The research showed that the Bermuda Monetary Authority, Guernsey Financial Services Commission ("GFSC"), Jersey Financial Services Commission ("JFSC") and the Securities Commission of the Bahamas ("The Commission")⁵ have issued AML/CFT/CPF and sanctions guidance. Furthermore, the GFSC, JFSC and The Commission⁶ have issued enforceable rules (or corresponding measures)⁷ for AML/CFT/CPF. In addition, the GFSC and JFSC have issued enforceable rules (or corresponding measures) on sanctions.

29. The Proposed Measures have been designed to align with FATF standards, which are widely adopted by overseas regulators in comparable territories.

30. This alignment will ensure consistency with international best practice and will provide a proven framework, which has been successfully implemented across numerous countries, demonstrating both its effectiveness and practical feasibility.

⁵ The Commission has issued guidance notes and guidelines.

⁶ Rules issued by The Commission are sector specific.

⁷ The JFSC has issued corresponding measures as Codes of Practice in the [AML/CFT/CPF Handbook](#).

F. **Cost and Benefit Analysis**

31. **Table 1** provides a summary of the estimated costs and benefits of the Proposed Measures.

Table 1 - Estimated Costs and Benefits of the Proposed Measures

	Costs	Benefits
<i>CIMA</i>	<p>The Authority will incur administrative costs associated with:</p> <ul style="list-style-type: none"> conducting applicable consultation(s); gazetting and publishing the Proposed Measures; training staff; monitoring compliance with the Proposed Measures; and establishing and enforcing administrative fines for breaches of the Proposed Measures. 	<p>The Proposed Measures will:</p> <ul style="list-style-type: none"> address the limitation identified in the MER; strengthen CIMA's enforcement powers for ML/TF/PF and sanctions-related breaches; enhance, clarify, and support the Authority's supervision and regulation of ML/TF/PF and sanctions risks; and increase alignment with international AML/CFT/CPF and TFS standards.
<i>Cayman Islands</i>	<p>The Monetary Authority (Administrative Fines) Regulations would need to be amended to attach categories of breaches to the Proposed Measures.</p>	<p>The Proposed Measures will:</p> <ul style="list-style-type: none"> bolster the jurisdiction's compliance with the FATF Recommendations and improve effectiveness; address the key limitation identified in the MER while demonstrating measurable progress that supports positive outcomes in future mutual evaluations; positively contribute to the reputation of the jurisdiction with a robust AML/CFT/CPF/TFS supervisory regime; and enhanced market integrity.
<i>Regulated Entities</i>	<p>Regulated entities may incur costs associated with:</p> <ul style="list-style-type: none"> training staff; improving AML/CFT/CPF and sanctions systems; and increased operational costs/expenses associated with operating in or from within the Cayman Islands, in ensuring compliance with the Proposed Measures. 	<p>Regulated entities will experience:</p> <ul style="list-style-type: none"> enhanced clarity on AML/CFT/CPF and sanctions requirements; improved mitigation of ML/TF/PF and sanctions risks; and increased investor protection.

32. In conclusion, there are costs associated with implementing the Proposed Measures. However, the jurisdiction would incur greater costs if the Proposed Measures were not implemented. Therefore, CIMA considers that the overall benefits of implementing the Proposed Measures ultimately outweigh the costs.

G. Consultation Feedback and Comments

33. Before proceeding with the Proposed Measures, the Authority shall have regard to any representations made by private sector associations only. Feedback submitted by individuals, entities, or other bodies, unless acting on behalf of a private sector association, will not be accepted by the Authority. Representations from private sector associations must be submitted as a consolidated document, and a list of the entities providing feedback should be included. Private sector associations should ensure that conflicting positions are resolved prior to submission to the Authority. Where positions conflict within or across associations, the Authority will consider all available information in taking a decision, which will be at its sole discretion.

34. To ensure that all responses are given due consideration, it is important that private sector associations make clear reference to the sections of the measure being commented on, and that responses are unambiguous, clearly articulated and based on fact. The consultation process is not designed to address complaints or grievances. Feedback of this nature should be submitted through the established complaints process.

35. In cases where the feedback proposes to change a policy position of the Authority or substantially amend any requirement of the Proposed Measures, information to support the position of the association must be provided. The table below provides an example of the Authority's expectation with regards to feedback for the Proposed Measures.

Reference	Example of a Helpful Comment	Examples of Comments needing more Support
Rule 4.2 ⁸	<p>In Rule 4.2, the current text omits the fair value measurement of liabilities. Also, as defined, it is not asymmetrical with the Market Price definition and thus, scenarios exist that fall into neither category.</p> <p>Suggested wording: <i>Hard-to-Value Securities means an asset or liability for which there is no Market Price which is required to be measured at fair value pursuant to 5.2</i></p>	<ul style="list-style-type: none"> ✗ This is not what is done in other jurisdictions. ✗ I don't think we should do this. ✗ CIMA is not considering the position of the experts.

⁸ This example is not reflective of the content of the Proposed Measures.

36. All feedback submitted by private sector associations will be given due consideration. Nevertheless, the decision to adopt any feedback provided into a proposed measure will be at the sole discretion of the Authority.

H. Notice of Representations

37. The Authority seeks consultation through written comments and representations from private sector associations concerning the:

- (1) *Rule on Effective Compliance Programme for the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing for Financial Services Providers (Appendix I);*** and
- (2) *Rule on Compliance with Financial Sanctions and Targeted Financial Sanctions (Appendix II),***

38. The Authority must receive representations by **5:00 pm on Monday, 9 March 2026**. Representations received after this deadline may not be considered and will not form part of the collated written response provided to private sector associations.

39. Comments and representations must be addressed to⁹:

The Chief Executive Officer
Cayman Islands Monetary Authority
P.O. Box 10052
Pavilion East, Cricket Square
Grand Cayman KY1-1001
Cayman Islands
Tel: 345-949-7089
Email:

contactpolicy@cima.ky

and copied to LashondaPowell@cima.ky and JaseTorry@cima.ky

40. The Authority shall have due regard to any representation made by private sector associations and industry stakeholders. The Authority shall provide a written response collating the feedback received and the Authority's position on this feedback. This response shall be copied to all relevant private sector associations only.

⁹ Where the private sector association or industry stakeholder has no comments or representations on the Proposed Measures, it is recommended that the Authority be informed of this fact.



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