CAYMAN ISLANDS MONETARY AUTHORITY

AML/CFT

ACTIVITY REPORT 2020

Table of Contents

Introduction

Financial service providers ("FSPs") and trust and company service providers ("TCSPs") are an essential part of the Cayman Islands' economy. They enhance the status of the jurisdiction as an international financial centre and are recognised globally. This privileged position, however, brings responsibility. FSPs and TCSPs must play a central role in the fight against money laundering ("ML") and terrorist financing ("TF") to help safeguard against flows of illicit finance.

As part of its overall mandate under the Monetary Authority Act, the Cayman Islands Monetary Authority ("CIMA") is responsible for the regulation and supervision of FSPs and TCSPs, and for monitoring, supervising and enforcing compliance under the Anti-Money Laundering Regulations (the "AMLRs").

This inaugural annual report sets out CIMA's anti-money laundering ("AML") and combating the financing of terrorism ("CFT") activities during 2020. Despite the challenges posed by COVID-19 during 2020, CIMA delivered its comprehensive AML/CFT supervision plan while maintaining regular contact with licensees, registered persons and industry associations.

In 2020, CIMA:

- Conducted 180 AML/CFT on-site inspections of regulated entities
- Issued 1,262 requirements, of which 1,047 were 'matters requiring immediate attention'
- Issued letters of no findings for 10% of inspections
- Issued two administrative fine penalties and took 1,388 further enforcement actions

It is expected that all regulated entities take note of this report and act to ensure that their own AML/CFT compliance framework meets with the standards prescribed by the AMLRs and the AML Guidance Notes, and all other applicable legislation.

AML/CFT Supervisory Function

CIMA's AML/CFT supervisory activities are carried out through its divisional infrastructure, which includes both regulatory and non-regulatory divisions.

The Anti-Money Laundering Division ("AMLD") was established in March 2019 as a specialist supervisory division dedicated to the monitoring and supervision of entities under its remit for compliance with AML/CFT requirements. The AMLD is ultimately responsible for fulfilling CIMA's AML/CFT mandate.

Table 1: Number of licensees and registrants under CIMA's supervision, 2020

Sector	Licensees/Registrants
Banking & Trusts	146
Money Services Businesses	5
Trust & Corporate Services Providers	475
Insurance Licensees	771
Mutual Funds	11,896
Private Funds	12,695
Mutual Fund Administrators	76
Securities Licensees and Registered Persons	1,685
Total	**27,749**

Supervision for Registered Persons

The Excluded Persons regime under the Securities Investment Business Act ("SIBA EPs") was abolished on 15 January 2020. Entities that previously qualified as SIBA EPs had to re-register with CIMA as Registered Persons. CIMA has published the names of entities that did not re-register.

CIMA now conducts comprehensive AML/CFT and counter proliferation financing ("CPF") supervision of 1614 Registered Persons as of 31 December 2020, including undertaking fitness and propriety checks, conducting on-site inspections and taking enforcement action where required.

In 2020, CIMA completed risk-based inspections for 39 Registered Persons to evaluate their AML/CFT policies, procedures, systems, and controls. The preliminary results from the inspections were published in December 2020 in a supervisory circular to help Registered Persons better understand CIMA's expectations and raise AML/CFT compliance standards across the whole sector.

Risk-Based Approach to AML/CFT Supervision

CIMA takes a risk-based approach in determining the frequency and intensity of on-site and off-site AML/CFT supervision. This takes into account the inherent ML/TF risks identified through the National Risk Assessments as well as sectoral risk assessments conducted by CIMA and the characteristics of all entities within CIMA's remit, such as the number and diversity of these entities and the degree of supervisory discretion afforded to them under the risk-based approach.

During 2020, a total of 180 AML/CFT specific on-site inspections were conducted compared to 175 in 2019. See Table 2.

Table 2: Number of AML/CFT on-site inspections conducted, 2020

Sector	Inspections
Banking	22
Trust & Corporate Services Providers	50
Insurance	25
Mutual Fund Administrators	20
Securities Investment Business Registered Persons and Licensees	63
Total	**180**

Deficiencies and Requirements

CIMA identified a number of deficiencies through on-site inspections in 2020. Table 3 below shows the percentage of regulated entities (subject to on-site inspection) per type of AML/CFT deficiency along with the associated number of requirements issued. An AML deficiency can be minor, serious or very serious.

Table 3: Deficiencies of inspected regulated entities and requirements issued

Category	% of Inspected Regulated Entities per Type of Deficiency	Number of Requirements per Type of Deficiency Issued
AML/CFT Programme	11%	101
CDD/KYC Identification Procedures	55%	387
Internal Controls/Internal Audit	28%	87
Internal Reporting Procedures	7%	33
Officer Appointment	3%	24
On-going Monitoring	39%	100
Policies and Procedures	38%	207
Record Keeping Procedures	16%	41
Risk-Based Approach	38%	163
Sanctions	36%	104
Employee Awareness & Training Programme	22%	74

The most common deficiencies identified through on-site inspections were around client identification and verification documentation/customer due diligence ("CDD"), ongoing monitoring, policies and procedures, risk-based approach and sanctions.

Customer Due Diligence

CIMA identified deficiencies around CDD for 55% of regulated entities subject to on-site inspection. These related to:

- Incomplete or inappropriate independent CDD: identification verification, address verification, source of funds, corporate records, and authorised signatories
- Expired CDD and illegible photo identification documents
- Improper, or lack of, certification of CDD in accordance AMLRs/Guidance Notes and/or with the regulated entity's policies and procedures
- Incomplete client profiles relating to documenting the nature and purpose of business, account turnover, reference letters, and non-face to face procedures
- Incomplete politically exposed person ("PEP") due diligence documents: source of wealth, senior manager sign-off, enhanced ongoing monitoring

Ongoing Monitoring

CIMA identified deficiencies around ongoing monitoring for 39% of regulated entities subject to on-site inspection. These related to:

- Lack of documentation of the periodic customer file reviews conducted
- Lack of documentation to evidence the transactional monitoring procedures performed

Policies and Procedures

CIMA identified deficiencies around policies and procedures for 38% of regulated entities subject to on-site inspection. These related to:

- Lack of documentation of a risk-based approach
- Inadequately developed ongoing monitoring procedures
- AML/CFT polices that did not sufficiently address the certification of client identification documents
- Inadequate enhanced due diligence procedures for higher risk clients: high risk jurisdictions, PEPs and Relatives and Close Associates ("RCAs"), suspicious activity
- Insufficiently addressed targeted sanctions requirements of the Cayman Islands: failing to refer to appropriate lists, inadequate screening procedures to update lists, alert processing, asset freezing, reporting procedures
- Inadequate gap analysis to identify and address gaps between the regulated entity's group-wide AML/CFT policies and procedures and the applicable regulatory requirements of the Cayman Islands
- Non-compliance with regulatory requirements to perform periodic internal AML/CFT audits

Risk-Based Approach

CIMA identified deficiencies around the risk-based approach for 38% of regulated entities subject to on-site inspection. These related to:

- Inappropriate application of the risk-based approach to the size, nature and complexity of the business operations of the regulated entity and its client relationships
- Inappropriate client risk rating tools or the client risk ratings undocumented
- Outdated or not completed client risk ratings for client population
- Inadequate/incomplete customer and counter party risk assessment methodology documenting all risk factors and parameters: PEPs, suspicious activity, geographic risk

Sanctions

CIMA identified deficiencies around targeted financial sanctions programmes for 36% of regulated entities subject to on-site inspection. These related to:

- Inadequate evidence of screening all clients and counter parties
- Inability to demonstrate timely screening of clients and counter parties as sanctions lists are updated
- Insufficient resources applied to ensure immediate and effective screening
- Insufficient management of data: alerts log, evidence of screening, logic for clearing alerts

CIMA imposes requirements for non-compliance and actively monitors the regulated entities that are identified as having deficiencies. CIMA also uses this data as part of its risk-based approach, considering the inherent risks of the sector, and applying resources to supervision accordingly. CIMA also issues guidance through supervisory circulars to encourage compliance by regulated entities.

Enforcement Actions

CIMA is both a prudential and AML/CFT regulator, and therefore its powers to impose sanctions through enforcement actions for breaches of AML/CFT (other than administrative fines) are carried out through the operation of its regulatory acts. These acts state that where a licensee/registrant has contravened such legislation, CIMA may take any of the listed enforcement actions.

Administrative fines are a newly deployed element of CIMA's enforcement toolkit. The first official fine imposed against a Category "A" Bank was in October 2020 in the amount of CI$100,000. In December 2020, CIMA imposed its second fine of CI$482,717.50 against a trust company.

Table 4: Breakdown of enforcement actions by CIMA, 2020

Enforcement Action	Banking	Fiduciary	Insurance	Investments	Securities	Total
Revocations/ Cancellations	2	0	5	8	0	**15**
Appointment of Controllers	0	0	1	0	0	**1**
Winding Up Petitions	0	0	1	0	0	**1**
Cease and Desist/ Requirements /Conditions	0	0	0	1	0	**1**
Actions Under the DRLA	0	0	0	0	0	**0**
Warning Notices	2	0	4	1,045	324	**1,375**
Admin Fines Breach Notices	0	1	1	0	0	**2**
Admin Fines	1	1	0	0	0	**2**
Total	**5**	**2**	**12**	**1,054**	**324**	**1,397**
Enforcement Actions with AML/CFT Component	3	2	1	3	0	**9**
Directors Found Not Fit and Proper	1	0	2	3	0	**6**

Focus on Beneficial Ownership

CIMA conducted a Focused Thematic Review of selected TCSPs to assess their AML/CFT systems and controls. By obtaining and maintaining adequate, relevant and up to date information, TCSPs will have greater visibility of the controllers and beneficial owners of the businesses they are serving, and a better understanding of their business relationships.

Specifically, CIMA considered compliance with Regulation 12 of AMLRs, which relates to customer due diligence, identification of beneficial owners, purpose and intended nature of the business relationship, and source of funds.

The Thematic Review identified weaknesses in relation to business relationships, specifically:
- Missing or inadequate CDD information and documents: 38% of files reviewed
- Source of funds/source of wealth: 58% of files reviewed
- Purpose and intended nature of business: 49% of files reviewed
- Ongoing Monitoring: 58% of files reviewed

In addition to sharing the results of the Thematic Review with regulated entities, CIMA engaged with fellow supervisors via the Supervisors' Forum. Working closely with the Registrar of Companies, beneficial ownership compliance continues to be a priority for CIMA.

AML/TF/PF Risk Assessments & Ratings

In 2020, CIMA published details of sectoral risk assessments of ML and TF risks in the various regulated financial sectors/sub-sectors under its remit. CIMA devised a list of inherent risk indicators for each sector/sub-sector and surveyed its licensees and registrants to obtain data that would enable it to assess those risks before the application of any controls, mitigants or oversight.

Each sector was rated on a scale of Low, Medium-Low, Medium-High, and High against the five inherent risk areas recommended in the Financial Action Task Force ("FATF") 40 Recommendations, namely:

i. Nature, size, and complexity of business
ii. Transactions, products and services
iii. Delivery channels
iv. Customer types
v. Geographic risks

Table 5: Ratings assigned on each risk factor assessed

	Banking Category 'A'	Banking Category 'B'	MSB	Trust Service Providers	Corporate Service Providers	Insurance	Mutual Fund Administrators	Securities Licensees	SIBL EPS
Nature, size, complexity	L	MH	MH	MH	MH	L	MH	MH	H
Transactions, products and services	ML	MH	H	H	MH	ML	MH	H	MH
Delivery channels	ML	ML	ML	MH	ML	MH	MH	MH	MH
Customer types	ML	H	MH	MH	ML	ML	ML	MH	MH
Geographic risks				ML	ML	L	ML	MH	ML
Overall Risk	**ML**	**MH**	**MH**	**MH**	**MH**	**ML**	**MH**	**MH**	**MH**

A jurisdiction-led task force to update the National Risk Assessment also commenced in 2020. CIMA has active participation in working groups for the following areas: national vulnerabilities, banking, securities, investments, insurance, TCSPs, lawyers, non-profit organisations, virtual asset service providers, legal persons and legal arrangements and other financial institutions.

New ML/TF Descriptors

CIMA introduced quarterly cash flow reporting by banks to better understand the TF risks associated with cross border threats and collected cash flow information for 2018 and 2019. These returns are being used to monitor payments to high-risk countries, including sudden shifts in the origin and destination of funds.

The implementation of this reporting has strengthened CIMA's understanding of the jurisdiction's cross-border activities and how this contributes to the overall ML and TF risk. Under the risk-based approach, CIMA applies resources to the review and testing of wire transfers or cross border payments to and from high-risk jurisdictions to determine whether banks are applying sufficient and appropriate CDD procedures, including enhanced due diligence procedures on such payments deemed high-risk or carried out by high-risk customers and whether any ad hoc/surprise inspections are needed.

Virtual Asset Service Providers Supervision

The Virtual Asset Service Providers ("VASP") Act was passed in May 2020 to regulate virtual asset activities taking place in or from the jurisdiction. CIMA has been appointed the supervisory authority for VASPs.

The VASP Act also provides for different categories of authorisation depending on the risk of the type of activity that will be conducted.

The VASP Act is being implemented in two phases.

Phase one came into force on 31 October 2020 and focused on the implementation of the AML/CFT compliance, supervision and enforcement, and other key areas of risk. All entities engaged in or that intend to engage, in virtual asset services were required to file applications for Registration with CIMA by 31 January 2021. CIMA will assess the applicant's AML/CFT/CPF systems and controls, inherent risks, open-source information, and closed source intelligence.

Phase two will bring into effect the outstanding sections of the VASP Act, and Regulation is scheduled to commence in 2022. This includes the licensing regimes for virtual asset issuers, exchanges, fintech and sandbox. The Cayman Islands is currently developing the licensing framework, policy and supervisory framework for each.

Cayman Islands registered VASP are required to comply with the AML/CFT/PF and Sanctions obligations outlined in the AMLRs. CIMA has also published guidance notes setting out its AML/CFT regulatory expectations for VASPs, along with other relevant communications.

The AMLRs apply to VASPs, including (but not limited to): conducting CDD, having systems and controls in place when relying on third parties for CDD, collecting and verifying customer identity, sanctions screening, record keeping requirements, identification of PEPs and other high risk clients, and the application of enhanced measures to manage the risk posed by those entities.

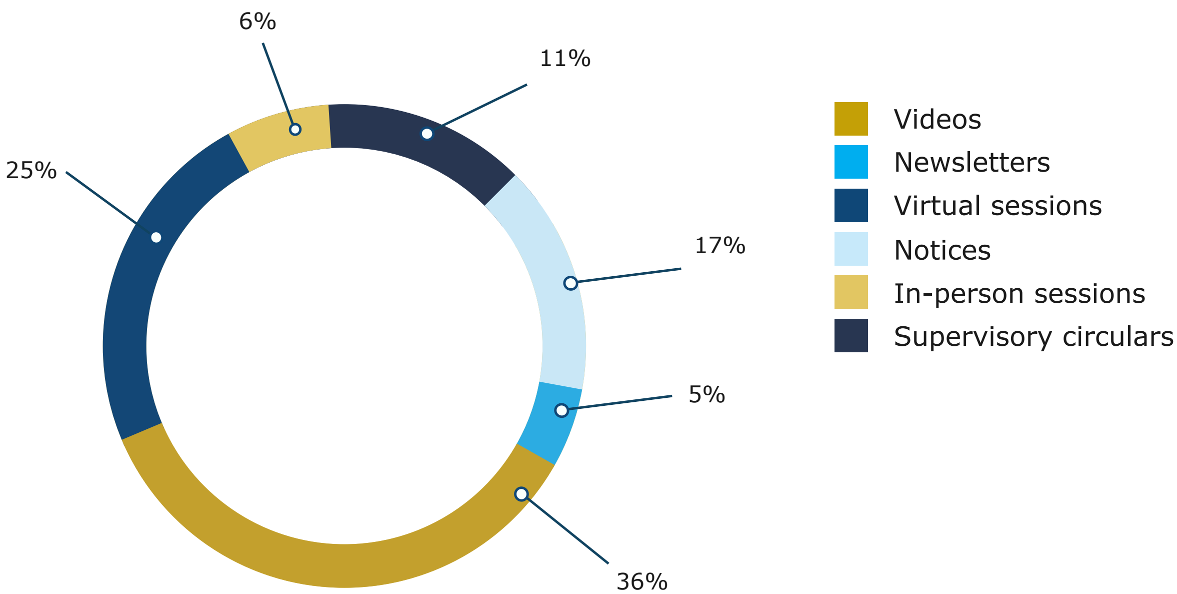
Outreach Activities

CIMA continued its commitment to raise AML/CFT compliance awareness and standards through outreach activities. Due to social distancing measures arising from COVID-19, outreach activities were conducted virtually. CIMA presented on topics including:

- Risk-based approach
- Risk assessments
- AML/CFT risk and red flag indicators
- Enhanced and simplified due diligence
- The role of the ML Reporting Officer and AML Compliance Officer
- Outsourcing
- VASP supervisory framework
- Ongoing monitoring
- Guidance note revisions
- Proliferation financing

Presentations were either conducted by CIMA, in collaboration with other Cayman Islands Government agencies or at industry-led virtual conferences and outreach sessions.

CIMA further published outreach videos and audio slides on its website for: TF Risk Assessment, Guidance Notes on the Risk-Based Approach, Guidance Notes amendments on Risk-Based Approach, Ongoing Monitoring, and Targeted Financial Sanctions, Proliferation Financing, Virtual Assets as well as the SIBA EP Risk Assessment, SIBA Licensee Risk Assessment, Mutual Fund Administration Risk Assessment, Banking Risk Assessment, Money Service Businesses Risk Assessment, TCSP Risk Assessment and the Insurance Risk Assessment. This initiative has been particularly successful, with over 13,000 hits to the webpage. CIMA also published a number of advisories, notices, circulars and newsletters. The chart below shows the different types of outreach.



To further promote awareness and compliance with Targeted Financial Sanctions ("TFS") obligations, CIMA commenced the automatic dissemination of email notices to registrants/ licensees of persons or entities designated under international financial sanctions regime, based on the consolidated list maintained by the Office of Financial Sanctions Implementation in the United Kingdom.

The notices provide information on what the recipient must do in the case of an addition, amendment or removal of a person/entity to/from the consolidated list. They are disseminated to over 17,000 email addresses of regulated entities/persons and form a continued part of CIMA's outreach efforts to promote compliance with TFS obligations.

Regulated entities may also now self-update contact details through the Regulatory Enhanced Electronic Forms Submission portal.

Future Objectives & Outlook

Looking ahead, CIMA will continue its vigorous oversight of AML/CFT obligations to promote and safeguard the integrity of the Cayman Islands' financial services industry. CIMA shall work in collaboration with government and industry stakeholders to continue to demonstrate the robustness of the Cayman Islands AML/CFT framework. CIMA will also continue to collect data around its AML/CFT supervision to assess outcomes and performance.

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