CAYMAN ISLANDS MONETARY AUTHORITY
ANNUAL REPORT

1 JULY 2004 – 30 JUNE 2005

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(CI$1=US$1.20)

MISSION STATEMENT

OF THE CAYMAN ISLANDS MONETARY AUTHORITY

"As the primary financial services regulator our mission is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive, and internationally recognised financial services industry through appropriate responsive, cost-effective and efficient supervision and stable currency."

Adopted by the Board of Directors
July 2004

TABLE OF CONTENTS

MISSION STATEMENT i
TABLE OF CONTENTS ii
MANAGING DIRECTOR'S STATEMENT 1
ABOUT THE CAYMAN ISLANDS MONETARY AUTHORITY 4
ROLE AND FUNCTIONS OF THE MONETARY AUTHORITY 5
Relationship with Government 5
Relationship with the Private Sector 6
International Cooperation 6
The Board of Directors and Other Committees 7
Strategic Planning Exercise 8
DIRECTORS AS AT 30 JUNE 2005 9
SENIOR OFFICIALS AS AT 30 JUNE 2005 14
MONETARY FUNCTIONS 15
CURRENCY OPERATIONS DIVISION 16
Currency Reserve 16
Circulating Currency 16
REGULATORY FUNCTIONS 18
SUPERVISORY DIVISIONS 19
BANKING SUPERVISION 19
Industry Trends 19
Inspection Programme 21
Regulatory Developments 22
FIDUCIARY SERVICES DIVISION 23
Industry Trends 23
Inspection Programme 24
Regulatory Developments 24
INSURANCE SUPERVISION DIVISION 26
Industry Trends 26
Inspection Programme 28
Regulatory Developments 29
INVESTMENTS AND SECURITIES DIVISION 30
Industry Trends 30
Inspection Programme 32
Regulatory Developments 32
NON-SUPERVISORY DIVISIONS 33
COMPLIANCE DIVISION 33
Enforcement Actions 33
Due Diligence 34
Other Activities 34

LEGAL DIVISION....35
Guidance Notes....35
International Initiatives....35
Other Activities....35
POLICY AND DEVELOPMENT DIVISION....36
Guidelines, Policies and Procedures....36
Non-routine Work Programme....37
Methodology for Determining Staffing Needs....38
COOPERATIVE AND ADVISORY FUNCTIONS....39
CROSS-BORDER COOPERATION....40
Memoranda of Understanding....40
Assistance to Overseas Regulatory Authorities....40
IOSCO....41
Basel II....41
IMF Assessment....41
IMF Information Framework....42
ADVISORY ACTIVITY....42
Money Laundering Reporting....42
Task Force Reviews....42
Working Groups....42
Review of Domestic Insurance Industry....43
ADMINISTRATIVE AND SUPPORT OPERATIONS....44
OPERATIONS DIVISION....45
HUMAN RESOURCES UNIT....45
Employee Appraisal....45
Recruitment and Advancement....45
Training and Professional Development....46
INFORMATION SYSTEMS UNIT....47
CIISMA Redevelopment....47
CIMA Website....47
IT & Telephony Business Recovery Plan....48
ACCOUNTS UNIT....48
Financial Position....48
MANAGING DIRECTOR'S OFFICE....49
PUBLIC RELATIONS....49

MANAGING DIRECTOR'S STATEMENT

The Cayman Islands Monetary Authority completed its second full year of operational independence from the Cayman Islands Government during the period under review. Despite the inevitable challenges the Authority has faced as we adjust to the new responsibilities this independence has brought, we are pleased that we have been able to emerge in a position of strength, both as a viable business ourselves, and in the critical roles of safeguarding and growing Cayman's financial services sector and maintaining the stability of our currency.

The Authority is keenly aware that the financial industry is one of the Islands' economic pillars, contributing roughly 30 percent to gross domestic product in 2004. Thus, it is critical that the Authority continually strives to ensure its performance meets the needs and expectations of all stakeholders. It was in this context that we began the financial year by refining our mission, making a commitment to fostering an industry that is thriving, competitive and internationally recognised. We are committed to achieving this through supervision that is appropriate, responsive, cost-effective and efficient, and through a stable currency.

The Authority's performance

Our results have been encouraging. The 21 percent increase in the number of mutual funds authorised during the period has been remarkable and the seven percent rise in the number of captive insurance licences issued shows the Cayman Islands is still a leader in this sector. And, while licensing activity in the banking, trust and company management sectors in 2004-05 was below the previous fiscal year, due in large measure to the trend towards consolidations worldwide, these sectors remain solid. The financial activity of Cayman-licensed banks, for instance, continued to increase, as did applications for, and licensing of, restricted trusts. The Authority realized CI$47 million (US$56.4m) from licence fee collections (some 98 percent of the forecasted $48 million (US$57.6m). With our costs totalling CI$9.4 million (US$11.3m), we were able to contribute $37.6 million (US$45m) to the Government's revenue.

Hurricane Ivan and economic growth

This performance, and the importance of the industry to our economy, becomes more significant when viewed in the context of the dislocations caused by Hurricane Ivan, which struck Grand Cayman from 11 to 12 September 2004. The hurricane was a large factor in the decline in the Cayman Islands' real economic growth for calendar year 2004 to an estimated 0.9 percent. However, the fiscal 2004-05 figure of 3.6 percent reflected the swift recovery that ensued, particularly in the financial sector, which is less dependent on the environment and physical infrastructure than tourism.

Ivan was the first hurricane to directly impact the Cayman Islands in over 70 years and caused damage estimated by the Economic Commission for Latin America and the Caribbean at CI$2.8 billion (US$3.4b), and two confirmed deaths. Despite sustaining varying degrees of damage to their structural facilities, financial institutions' records and data remained intact. The industry's recovery was largely due to licensees' business continuity plans, the national recovery efforts spearheaded by the Cayman Islands Government and the support provided by the Monetary Authority, which re-opened one week after the hurricane's passing, there being no damage to our records or operating systems.

Clearing banks reopened for withdrawals four days after the hurricane and resumed full business operations within two weeks. The Authority held weekly meetings with the various industry associations to ensure members' concerns and needs, such as securing operating and residential accommodation, were aired and addressed. The rate of licensing and registration activity across all sectors within the first few weeks of re-commenced operations was favourable compared to the pre-Ivan rate. We took this as a strong indication that investor confidence had remained high, despite the hurricane's destruction.

Enhancing the supervisory framework

As you will see from this report, throughout the period, the Authority undertook, or continued, several initiatives to ensure that the financial services supervisory framework is increasingly appropriate, responsive, cost-effective and efficient, and that it enhances the competitiveness and reputation of the Islands. Working with private sector representatives we have been reviewing the regulations governing all the sectors. Most of this work is awaiting final approval or nearing completion. During the year, we revised or developed guidance for different sectors and made these available to the public. Due diligence and inspection of licensees continued and enforcement action was also taken in a number of instances.

International involvement

On the international front, we continued to be actively involved with regulatory organizations, which enabled us to keep abreast of developments and ensured a voice in the creation of new standards. Such bodies included the Offshore Group of Banking Supervisors, the Caribbean Group of Banking Supervisors, the International Association of Fraud Agencies, the Offshore Group of Collective Investment Scheme Supervisors, and the Offshore Group of Insurance Supervisors, for which the Authority's Head of Insurance Supervision serves as secretary. We continued to put in place formal frameworks for the provision of assistance to overseas regulators through the development and signing of memoranda of understanding and similar undertakings. I consider the positive assessment from the IMF on the Cayman Islands' compliance with international standards as strong validation of the success of our work in this regard. Dialogue is ongoing with other standard-setters to enhance understanding of Cayman's financial services regime and to facilitate increased relevant cooperation.

Looking forward, we will continue to monitor initiatives external to CIMA for impacts on industry and the Authority. One such initiative is the European Union Savings Tax Directive (EUSD), which became effective on 1 July 2005, following the Cayman Islands Government's passage of enabling legislation on 23 June. The initiative affects some of the Authority's licensees that are paying agents that make or hold interest payments on saving income to or for individuals who are tax residents of EU member states. The law requires these agents to report the amount of interest payments on savings income and details of the recipient where this is an individual who is a tax resident of the EU. One early development CIMA has witnessed since the EUSD came into force is an increase in investment funds transferring domicile from neighbouring jurisdictions that did not sign on to the EUSD. This interest has been generated because of the perceived uncertainty relating to the application of the EUSD in those jurisdictions compared to the certainty provided in its application in the Cayman Islands.

Internal operations

Internally, we will continue in 2005-06 to focus on enhancing staff skills, resources and operational efficiency to enable us to cope with the demands of an ever-expanding industry. The strategic plan we developed around our new mission has formed the basis for our 2005-06 work plan. The groundwork was laid for an upgraded information management system, and for a new electronic filing system that will allow the collection, processing and initial analysis of audited accounts from CIMA-authorised funds and administrators to be fully automated. We adopted a business continuity/ disaster recovery plan that we are in the final stages of implementing. One aspect of the plan is the securing of a category five hurricane resistant building in which to operate. This is being pursued. We continue to be challenged by shortage of workspace and staff. However we have gained the commitment from the Government for funding to address these issues.

05-06 forecast

All this has provided a solid foundation on which to build in the 2005-06 fiscal year and in the longer-term. We have forecasted the collection of CI$49.4 million (US$59m) in fees by June 2006 and expenses are budgeted at $12.5 million (US$15m). This should enable the Authority to provide roughly $37 million (US$44m) to the Government's revenue. As part of the budget exercise, we have agreed with the Cabinet a new purchase agreement and revised outputs, which complement both our strategic goals and the Government's national medium-term goals of supporting Cayman's economy through, among other things, promotion of the financial services industry, and of having sound fiscal management.

I thank the Board of Directors, including former Deputy Chairman Linburgh Martin and director Don Seymour whose tenure ended in July 2005, for their guidance and support over the period. I also thank the staff for their ongoing dedication, which was especially appreciated in the aftermath of Hurricane Ivan when, in the face of challenging personal circumstances, employees returned to work almost immediately, facilitating CIMA's quick reopening. To our industry partners and other stakeholders, your cooperation and continued confidence has been instrumental in keeping the industry strong. I look forward to the further strengthening of the relationships we have forged.

Cindy Scotland

ABOUT THE CAYMAN ISLANDS MONETARY AUTHORITY

ROLE AND FUNCTIONS OF THE MONETARY AUTHORITY

The Cayman Islands Monetary Authority (CIMA) came into existence on 1 January 1997, an amalgamation of the former Cayman Islands Currency Board and the Financial Services Supervision Department. Established as a wholly government-owned body corporate, the Authority received full operational independence on 10 March 2003, through the Monetary Authority Law (2003 Revision). The key feature of this change was that powers previously vested in the Cabinet of the Cayman Islands to issue and revoke licences and for enforcement now vest in the Authority, through its Board of Directors.

CIMA has four **principal functions**. These are:
1. **monetary** - the issue and redemption of the Cayman currency and notes and the management of currency reserves;
2. **regulatory** - the regulation and supervision of financial services, the monitoring of compliance with money laundering regulations, the issuance of a regulatory handbook on policies and procedures and the issuance of rules, and statements of principle and guidance;
3. **cooperative** - the provision of assistance to overseas regulatory authorities, including the execution of memoranda of understanding to assist with consolidated supervision; and
4. **advisory –** the provision of advice to the Government on monetary, regulatory and cooperative matters.

The **primary obligations** of the Monetary Authority in carrying out its functions are:
1. to be efficient and act in the best economic interests of the Cayman Islands;
2. to promote and maintain a sound financial system and reduce the use of financial services business for criminal purposes;
3. to promote and enhance market confidence, consumer protection and the reputation of the Cayman Islands as a financial centre;
4. to recognise the international character of financial services/markets and the need to be competitive for consumers and suppliers while complying with appropriate and relevant international standards; and
5. to be transparent and fair.

Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves prudential meetings, limited scope visits, and supervisory visits both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee’s business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

Relationship with Government

Cabinet retains the power to give the Monetary Authority directions in the public interest and to issue regulations including setting licence fees. Additionally, CIMA officials can be called before the Legislative Assembly, and Cabinet can appoint an independent person to review the Authority’s performance. Cabinet also appoints the board, which comprises up to 10 members who serve fixed terms of three years and are eligible for reappointment. The law sets out the circumstances in which a director's appointment can be terminated. No member of the Cabinet or the Legislative Assembly may sit on the board.

As a statutory authority under the Public Management and Finance Law, the Monetary Authority is subject to an annual statutory audit and the Legislative Assembly must approve its annual budget and funding. For this purpose, the Authority and the Government enter into annual operating and purchase agreements under which the Government pays for specified regulatory and currency services provided by CIMA. Investment income earned on the currency reserve assets is paid over to the Government after the Authority satisfies all the reserve requirements at year-end. Industry licensing and operating fees collected by CIMA also belong to the Government. Each year, the Authority and the Government enter into an ownership agreement that identifies CIMA's strategic goals and objectives. These are used to evaluate its performance.

Relationship with the Private Sector

The Monetary Authority's accountability to the private sector has been formalised through a consultation process. This consultation must be done before issuing or amending rules or statements of principle or guidance regarding conduct of licensees and money laundering regulation. The process requires the Authority to explain the purpose of the measure, provide a cost/benefit analysis and allow a minimum of 30 days for comment. CIMA gives a written response to representations and forwards these, along with its response, to Cabinet.

Emergency exceptions are permitted. Final approval of rules and statements of guidance and principle (and amendments) rests with Cabinet. The Monetary Authority is also required to make recommendations to Cabinet regarding its functions and laws, regulations or directions, and, if so directed by the Financial Secretary, to consult with the industry on these recommendations.

As part of its statutory obligation of transparency and fairness, the Monetary Authority has produced a *Regulatory Handbook*. This publication, and its subsequent updates and amendments, sets out the policies and procedures followed by the Authority, its committees, and officers in performing their regulatory and cooperative functions. It includes details of the consultation process with the private sector associations and approval by Cabinet.

International Cooperation

One of the primary functions of the Monetary Authority is to cooperate with overseas regulatory authorities to enable them to carry out their regulatory functions. From 2000 to 30 June 2005, CIMA processed a total of 526 requests for assistance and provided assistance in approximately 98 percent of these cases. In the few instances in which requests for assistance were not granted, the requesting parties were either unable or unwilling to provide appropriate undertakings required under Cayman Islands law with respect to the use and protection of confidentiality of the information provided. The Monetary Authority is able to provide information on its files as well as information obtained pursuant to the exercise of its compulsory powers under the law, including client information where appropriate and necessary to the carrying out of the requesting overseas regulatory authority's functions.

The Authority is also authorized to enter into memoranda of understanding (MOUs) in the exercise of its cooperative function. The MOUs provide the framework to facilitate cross-border cooperation on information exchange, including timely access to, and verification of, information. As at 30 June 2005 it had entered into bilateral MOUs with four jurisdictions, a multi-lateral MOU with Caribbean regulators and an Undertaking on Exchange of Information in Securities Matters with the United States Securities and Exchange Commission (SEC). (See "Cross-border Cooperation," page 40.)

The Board of Directors and Other Committees
The board may delegate any of its duties and powers to a committee of the board, or to any other committee except a duty or power expressly imposed or conferred on it by the law. It has appointed the Executive Committee, comprising local directors, to make decisions on enforcement actions and applications for securities investment business licences. It has also delegated authority for licensing and supervisory decisions and related matters to the Management Committee, which consists of the management of the Monetary Authority.

To promote operational effectiveness, five sub-committees of the board have been established. These are:

1. the **Audit and Finance** Committee, which deals with the Monetary Authority's financial position and results of operations; reviews the financial reporting process, the system of internal control, the audit process and any other financial and audit matters referred to it by either the board or management;
2. the **Policy, Strategy and Relations** Committee, which, together with the Structure and Governance Committee and management, develops CIMA's strategic plan and procedures, as well as new rules, statements of guidance and principle and policies in conjunction with management, and submits recommendations to the board;
3. the **Structure and Governance** Committee, which advises the board on issues pertaining to the organizational structure and the direction and control of the Authority;
4. the **Legislative and Legal** Committee, which reviews and reports on any legal, legislative and regulatory matters referred to it either by the board or management, and which keeps local and international legal, legislative and regulatory developments relevant to the Monetary Authority under review with management; and
5. the **Human Resources** Committee, which advises the board on terms and conditions of staff employment, the staff handbook, the overall manpower requirements of the Authority and issues pertaining specifically to its executives.

Ensuring the fitness and propriety of all regulated persons and entities is critical to the Monetary Authority's supervisory approach. In achieving this, status reports are prepared for the board every five to six weeks. These reports contain a listing of all licensing decisions taken, and all other recommendations provided to the Cabinet for consideration in relation to regulation and currency.

Strategic Planning Exercise
To guide its continuing maturation as an independent entity, the Monetary Authority undertook its first strategic planning exercise in July 2004. The board and management of the Authority agreed following mission, goals and objectives:

Mission
"As the primary financial services regulator our mission is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive, and internationally recognised financial services industry through appropriate responsive, cost-effective and efficient supervision and stable currency."

Goals	*Objectives*
1. To create a high quality and effective regulatory environment to attract users and providers of financial services.	1. To ensure that the laws and regulations and scope of supervision are in line with international standards that are appropriate for the Cayman Islands. 2. To assist overseas regulators in a manner consistent with Cayman Islands laws. 3. To be responsive to appropriate needs of the market.
2. To operate the Monetary Authority in the most efficient way possible.	1. To secure adequate resources and deploy them efficiently in the fulfilment of the Monetary Authority's mandate.
3. To preserve the value and integrity of the Cayman Islands' currency.	1. Maintain and safeguard adequate reserves. 2. Deter counterfeiting. 3. Provide adequate stock and facilities for the physical safeguarding of the currency.
4. To raise the profile in order to increase understanding of the Monetary Authority, both locally and internationally.	1. Strengthen relations with regulatory counterparts, and all other stakeholders (the Government, the industry and the public). 2. Forge/enhance relationships with local and international media.

The board then tasked management with the development of strategies and tactics for the achievement of the goals and objectives. These were presented to, and adopted by, the board in December 2004, for implementation beginning in the 2005-06 financial year.

DIRECTORS AS AT 30 JUNE 2005

Mr. Timothy Ridley OBE (Chairman)
Timothy Ridley is a former senior partner of the largest law firm in the Cayman Islands. From early 1995 until the end of 1999, he was principally based in Hong Kong heading up the Asia practice of the firm.

Mr. Ridley is a graduate of Cambridge University (BA) and Harvard Law School (LLM) and qualified as a solicitor in England. He has practiced as a Cayman Islands attorney-at-law for over 30 years, writes and speaks widely on Cayman Islands legal and regulatory matters, is a member of numerous international professional associations and has served on the editorial boards of leading publications such the Harvard International Law Journal.

Mr. Ridley has served on various consultative committees advising the Cayman Islands Government on matters relating to the financial and local industries. He is currently a member of the Private Sector Consultative Committee. In July 2002, he was appointed to the boards of the Health Services Authority (retired January 2005) and the Cayman Islands Monetary Authority (Chairman, July 2004). He was made an Officer of the Order of the British Empire (OBE) in 1996 for services to the financial industry and the local community.

Mr. Linburgh Martin (Deputy Chairman)
Linburgh Martin is the Managing Director of Close Brothers (Cayman) Ltd. He is a member of the Institute of Chartered Accountants in England & Wales and a member of the Society of Trust and Estate Practitioners. He is a council member of the Cayman Islands Society of Professional Accountants and a trustee of the Public Service Pension Board. Mr. Martin has been a member of the National Advisory Council, which provides policy advice to the Governor in Council on fiscal, economic, socio-cultural and legal matters.

Upon graduating from the University of Kent at Canterbury, Linburgh Martin joined Ernst & Young in London. Having completed his training and qualifying as a chartered accountant he returned to the Cayman Islands practice of Ernst & Young in the audit division. During his time in that division in London and the Cayman Islands he managed a portfolio of clients which included insurance companies, banks, hedge funds and large manufacturing concerns. In 1994 he moved to Chartered Trust, which was acquired by Close Brothers Group plc (Close Brothers) in April 2001. Close Brothers is the largest quoted independent merchant bank in the United Kingdom.

Mrs. Cindy Scotland (Managing Director)
Cindy Scotland has served as the Managing Director of the Cayman Islands Monetary Authority since June 2002. Prior to being appointed to this post, Mrs. Scotland worked in the public sector for more than 12 years. She spent the first five years of her career with the Cayman Islands Currency Board, serving three of those years as manager.

Upon the establishment of the Monetary Authority in January 1997, Mrs. Scotland assumed the role of Head of Currency Operations and was subsequently promoted to General Manager in July 1997. During her tenure as General Manager, Mrs. Scotland worked closely with the Managing Director in providing advice and support, whilst being actively involved in the regulatory aspects and day-to-day decisions of the Authority.

She has authored "Insurance Regulation in the Cayman Islands" (*Global Reinsurance Magazine, 11/2004*) and "Independence of the Cayman Islands Monetary Authority" (Ibid, 10/2003) and holds a number of board and committee posts. She is chairman of the Cayman Islands Guidance Notes Committee, and member of the Cayman Islands Stock Exchange Authority board, and the Anti-Money Laundering Steering Committee of the Private Sector Consultative Committee. She is also chairman of Special Olympics Cayman Islands.

She was made a life member of the International Association of Business Leaders in 2005, was the 2004 recipient of the Young Caymanian Leadership Award and is a notary public. Mrs Scotland holds a Bachelor of Arts degree in economics from Macalester College (1991) and a certificate with distinction and diploma with merit, both in offshore business management, from the Institute of Chartered Secretaries and Administrators (2001).

Dr. Warren Coats
Warren Coats is an economist with a BA from the University of California, Berkeley, and a PhD from the University of Chicago. He retired from the International Monetary Fund in 2003 after 26 years of service. He also worked for the Board of Governors of the Federal Reserve System and for the World Bank as part of its World Development Report team (on the financial system). He has taught at the University of Virginia, the University of Hawaii, and George Mason University.

Dr. Coats has published numerous articles in economics journals on money and banking. He is also the author of one book and editor or co-editor of three books on money and banking topics. While at the IMF he lead technical assistance teams advising governments on emergency and longer run measures for rebuilding money and banking systems in post crisis countries (Afghanistan, Bosnia and Herzegovina, Iraq, Kosovo, Yugoslavia); the development of new central banks including the introduction of new currencies (Croatia, Kazakhstan, Kyrgyzstan, Moldova, West Bank and Gaza Strip); the management of banking crises (Bulgaria, Croatia, Moldova, and Turkey), and assessing financial sector stability (Bangladesh, Egypt, Israel, and Slovak Republic). Dr. Coats assisted with the establishment of two currency boards (the Central Bank of Bosnia and Herzegovina, and Bulgaria National Bank), and led technical assistance on inflation targeting at the Czech National Bank, National Bank of Slovakia, and the Central Bank of Turkey. At present he lives in Arlington, Virginia, and is working on the rehabilitation of the money and banking systems of Afghanistan and Iraq.

Senator James F. Kelleher PC, QC
A former Member of Parliament and federal minister, Senator James Kelleher has served as counsel with Gowlings Toronto since 1991 in the area of corporate and commercial law, focusing on international trade. Senator Kelleher was elected to the

House of Commons in 1984. That same year he was sworn in as Minister for International Trade, where he prepared, introduced and launched negotiations for the Canada-United States Free Trade Agreement (FTA). Senator Kelleher also served as Minister responsible for Canada's Trade Policy and Trade Development. Among other international trade initiatives, he was deeply involved preparing for the Uruguay Round (GATT) of negotiations, now completed.

In 1986, Senator Kelleher was appointed Solicitor General of Canada with responsibility for the RCMP, CSIS, the Correctional Services of Canada, and the National Parole Board. Over 1989 and 1990 Senator Kelleher served on the binational panels resolving disputes relating to the interpretation and application of the FTA. Appointed to the Senate of Canada in 1990, Senator Kelleher serves as a member of the Banking Trade & Commerce Committee. He also serves as vice-chair of the Canada-China Business Council. Senator Kelleher currently serves as Chairman of the Board of IntesaBci Canada. He was called to the Ontario Bar after completing his law studies at Osgoode Hall Law School. In 1968, he was appointed Queen's Counsel Ontario and in 1988, Queen's Counsel Canada.

Dr. Richard W. Rahn
Dr. Richard Rahn is Director General of the Centre for Global Economic Growth (a project of the FreedomWorks Foundation, Washington, D.C.) and an economic columnist. In the 1980s, Dr. Rahn served as Vice President and Chief Economist of the Chamber of Commerce of the United States. Previously, he was the Executive Director of the American Council for Capital Formation. He has advised senior government officials on tax and monetary policy matters in a number of countries, including serving as the U.S. co-chairman of the Bulgarian Economic Growth and Transition Project in 1990. In 1982, President Reagan appointed Dr. Rahn as a member of the Quadrennial Social Security Advisory Council. During the 1988 presidential campaign, he served as an economic advisor to President G.H.W. Bush.

Dr. Rahn is the founder of the Novecon companies, which included Sterling Semiconductor Inc. (now owned by Dow Corning). Professor Rahn taught at several universities including the Polytechnic University of New York, where he served as head of the graduate department of management. He has written hundreds of articles for newspapers and magazines such as the *Wall Street Journal*, *The Washington Times*, *USA Today*, *American Spectator*, *National Review*, *The National Interest*, and *The Weekly Standard*; has contributed to numerous books and professional journals, and served as editor-in-chief of the *Journal of Economic Growth*. He is the author of the book *The End of Money and the Struggle for Financial Privacy*, and has testified before the U.S. Congress on economic issues more than 75 times.

Dr. Rahn earned a PhD in business economics from Columbia University (1972). He was awarded an honorary Doctor of Laws by Pepperdine University (1993).

Mr. Don M. Seymour
Don Seymour is the Managing Director of dms Management Ltd., a Cayman Islands company management firm. Formerly, he was the Head of Investment Services in the Monetary Authority where he directed the authorization, supervision, and enforcement of regulated mutual funds and mutual fund administrators and the

supervision of company managers. Prior to joining the Monetary Authority, he was a manager (audit and business advisory services) for Price Waterhouse, Grand Cayman, and a senior accountant with the Investment Management Services Group, Price Waterhouse LLP, New York, where he managed and coordinated global, multi-disciplinary teams to deliver professional audit and business advisory services to major investment management clients, including the largest offshore investment companies in the world. In November 2001, he was appointed by the Cayman Islands Government to the Cayman Airways Limited Board of Directors as the director responsible for reorganizing the financial strategy of the airline and improving its financial performance. He has contributed to many articles on the offshore financial industry in financial magazines and as a speaker at various conferences. He is a notary public and a previous member of the Trade & Business Licensing Board of the Cayman Islands. In 1991, he obtained a BBA degree in accounting from the University of Texas at Austin and qualified as a certified public accountant in the State of Illinois.

Miss Letitia Solomon
Letitia Solomon is a senior manager at Deloitte Consulting with primary responsibility for economic and business consulting. She assumed this post in April 2005, having previously worked in the Portfolio of Finance and Economics of the Cayman Islands Government's for over 17 years.

In her current role, Miss Solomon provides services to help companies manage day-to-day operations, seize new opportunities, drive business growth and realize long term strategic goals. Prior to this, as Assistant Financial Secretary, she provided policy advice to the Financial Secretary and to the Leader of Government Business on a range of financial subjects, particularly on matters relating to the financial services industry. Miss Solomon's previous responsibilities and accomplishments include the establishment of the Portfolio of Finance and Economics' Public Relations Unit; the management of the Financial Secretary's Office, including implementation of the Government's Financial Management Initiative. She coordinated and participated in meetings of the Caribbean Financial Action Task Force, and led and participated in delegation meetings with US congressmen and congressional staff in Washington DC. She has been instrumental in formulating several policies and procedures for the Portfolio of Finance and Economics, as well as for the Cayman Islands Monetary Authority in her capacity as a director.

Miss Solomon began her career in 1987 as a banking analyst with the former Banking Supervision Department (which was subsumed under the Monetary Authority). Her nine years' experience in banking supervision included a one-year secondment to the Bank of England's Banking Supervision Department (1993-1994).

Miss Solomon obtained a Bachelor of Science degree in finance from the University of South Florida in 1987 and was awarded an MBA in the specialty area of strategic management and finance from the University of Edinburgh, Scotland, in 2001.

Sir Alan Traill, GBE, QSO
Sir Alan Traill's wealth of experience in the international insurance industry dates back to 1956 when he was employed by Lloyd's broker, Morice Tozer & Beck. He subsequently became a director in 1960, responsible for reinsurance development

particularly in Italy and Spain, and, in 1969, was appointed broker to Insurance Corporation of Singapore. In 1970, he helped form a reinsurance company at the request of the Mauritius Government to trade in worldwide property reinsurance with a view to creating invisible earnings. He became a Member of Lloyd's in 1964 (resigned 1986). In 1973 Sir Alan co-founded his own broking company, Traill Attenborough Ltd, and was its chairman from 1978 to 1986. In 1978 he was chairman of the Reinsurance Committee of B.I.B.A. As such, the regulatory authorities of both Bermuda & Hong Kong consulted him. In 2000 he created his own insurance consultancy and arbitration practice, having been trained in alternative dispute resolution. He is a committee member of ARIAS. In 2002 he acted as an expert witness in that year's longest civil trial involving an alleged conspiracy between a cover holder and a Lloyd's broker. Sir Alan was educated at Charterhouse and has a MA (law) from Cambridge University. In 1970 he was elected onto the City of London Council; in 1975 became an Alderman, and served the office of Lord Mayor of London in 1984.

SUBSEQUENT EVENT

On 28 July 2005, the Cabinet reappointed Mr. Timothy Ridley as chairman and appointed Mr. A. Joel Walton JP, Mr. Carlyle McLaughlin Jr., and Ms. Adriannie Webb to the board. The new appointees succeeded Messrs. Martin and Seymour. Mr. Walton was appointed deputy chairman.

SENIOR OFFICIALS AS AT 30 JUNE 2005

Managing Director	Cindy Scotland
Banking Supervision Division	
Head of Banking Supervision	Anna McLean
Deputy Head	Malcolm Eden
Compliance Division	
Head of Compliance	RJ Berry
Currency Operations Division	
Head of Currency Operations	Cindy Scotland
Deputy Head	Shan Whittaker
Fiduciary Services Division	
Head of Fiduciary Services	Patrick Bodden
Deputy Head	Rohan Broomfield
Insurance Division	
Head of Insurance	Mary-Lou Gallegos
Deputy Head	Morag Nicol
Investments and Securities Division	
Head of Investments and Securities	Gary Linford
Legal Division	
General Counsel	Langston Sibblies
Legal Counsel	Sandra Edun-Watler
Managing Director's Office	
Public Relations Executive	Karen Edie
Operations Division	
Financial Controller	Stanley Legiersky
Human Resources Manager	Deborah Musson
Information Systems Manager	Rodney Ebanks
Policy and Development Division	
Head of Policy and Development	Mitchell Scott

SUBSEQUENT CHANGES

Head of Banking Supervision	Malcolm Eden
Public Relations Executive	Joan Scott-Campbell

MONETARY FUNCTIONS

CURRENCY OPERATIONS DIVISION

The Monetary Authority, through its Currency Operations Division, continues to be the sole issuing authority for Cayman Islands currency. The division is responsible for the issue, re-issue, and withdrawal of Cayman Islands currency notes and coins against the US dollar, dealing with the following local retail banks: Fidelity Bank, First Caribbean International Bank, Butterfield Bank International (Cayman) Ltd., Cayman National Bank, Scotiabank, and the Royal Bank of Canada. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors.

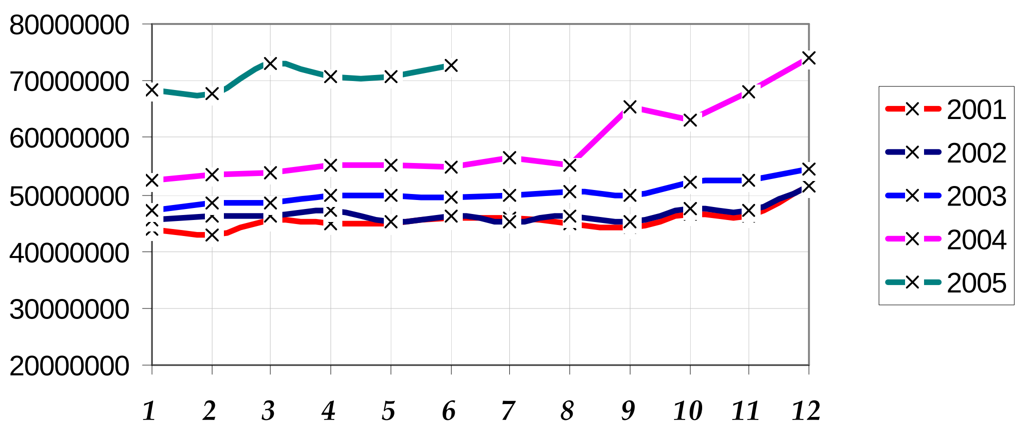
Cayman Islands currency is issued on demand only against U.S. currency at the rate of one Cayman Islands dollar per 1.20 U.S. dollars and is repurchased on demand with U.S dollars at the same rate. The currency in circulation is backed by the currency reserve assets invested primarily in US government agency-issued discount notes and mortgage–backed securities through outside fund managers. The investment guidelines used by the fund managers are security, liquidity and income.

Currency Reserve

As at the end of June 2005, total currency reserve assets stood at $89.8 million (unaudited) representing 123.7 percent of currency in circulation.

Circulating Currency

Currency in Circulation by Month: 2001- 2005



At 30 June 2005 currency in circulation (excluding numismatic coins) stood at $65.4 million in notes and $7.4 million in coins, for a total of $72.8 million. This represented a 33 percent increase from $54.8 million the year before. The increase was initially a consequence of Hurricane Ivan, which disabled many systems normally used for non-cash transactions. The subsequent increase in the pool of short-term expatriate labour brought in to assist with reconstruction also fuelled continued high demand for circulating currency. This significant increase in demand liabilities had financial implications for the Authority as funds subsequently had to be transferred

from its operating surplus to bring the general reserve in line with the requirements of Section 10(1)(b) of the Monetary Authority Law, which requires the general reserve to be maintained at 15 percent of demand liabilities.

During the reporting period the Currency Division commissioned the minting of additional supplies of circulating coins to replenish existing stocks. These coins were re-dated 2005 to reflect the year of issue.

The reprint of the $100, $25, $10, $5 and $1 banknotes was also commissioned to replenish stocks. These re-printed banknotes will be a part of the current “C” Series family, with one of the differences being the change in signatories to the Financial Secretary, Hon. Kenneth Jefferson, and the Monetary Authority’s Managing Director Cindy Scotland. These banknotes will also have De La Rue’s Cornerstone™ feature, a watermark in the four corners of each banknote. This is intended to make the banknotes more resistant to corner folds and will also serve as an additional security feature, visible when the note is held up to light.

Total notes withdrawn from circulation and destroyed in the 2004/5 financial year was $26.8 million. This increase over last year’s $15.8 million was due to a concentrated effort to clear the backlog of mutilated notes in stock. Thus, new notes with the value $37.4 million where issued, resulting in an increase in currency in circulation of $10.6 million.

REGULATORY FUNCTIONS

SUPERVISORY DIVISIONS

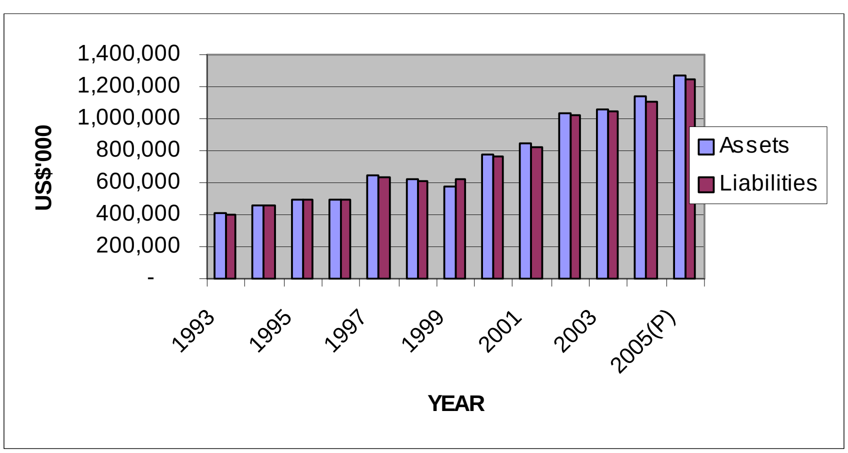
BANKING SUPERVISION DIVISION

The Banking Supervision Division is responsible for supervising and regulating the activities of licensed banks and trust companies in accordance with the Banks and Trust Companies Law (2003 Revision). The division is also responsible for the supervision of various "non-bank" entities subject to the Money Services Law (2003 Revision), the Cooperatives Society Law (2001 Revision) and the Building Societies Law (2001 Revision).

The Banking Supervision Division adheres to the Basel Core Principles for Effective Banking Supervision and other international best practice standards appropriate for the jurisdiction. The Authority is an active member of various international bodies such as the Offshore Group of Banking Supervisors, the Caribbean Group of Banking Supervisors and the Association of Supervisors of Banks of the Americas. Through the Head of Banking, the Authority is represented as a member of the Cross Border Working Group, a sub-grouping of the Basel Committee. The division participates in other international conferences, including the International Conference of Bank Supervisors, which is coordinated by the Basel Committee. These regulatory associations meet regularly to discuss training requirements for bank supervisors, current banking issues, international initiatives and the development and maintenance of effective regulatory systems.

Industry Trends

The Cayman Islands has continued to hold its prominent position as the fifth largest banking centre and the largest offshore banking centre in the global financial market in terms of total liabilities. This has been evident by the size of the banking sector and the number of leading international banks that maintain Cayman Islands operations. As at 30 June 2005, the jurisdiction hosted branches or subsidiaries of 45 of the world's top 50 banks as ranked by total assets. At the same time, the jurisdiction continued to see growth in the volume of financial activity booked through bank licensees. The chart below shows the continued growth in the external assets and liabilities of all Cayman Islands bank licensees.



Assets and Liabilities of Cayman Islands Bank Licensees (by Year)

Notes:

1. *P – Provisional Data compiled by CIMA.*
2. *Data for 1993 to 2003 represent figures for the month of December, while the data for 2004 and 2005 represent figures for June of those years.*

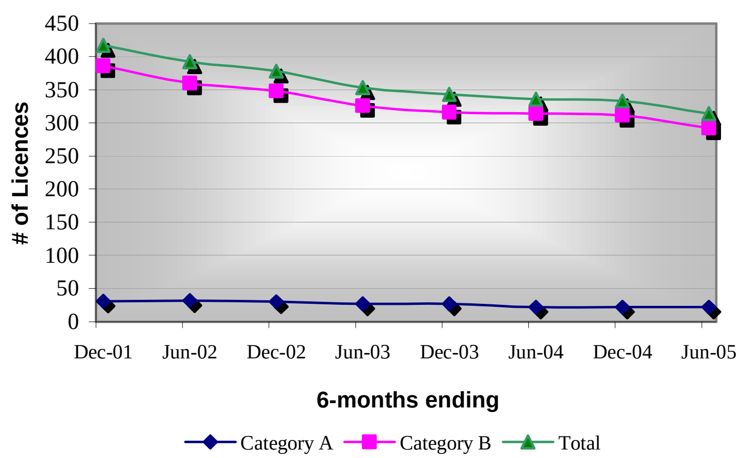
Total international assets booked through banks in the Cayman Islands at the end of June 2005 stood at US$1,265 billion as compared to US$1,144.4 billion in June 2004. Liabilities rose to US$ 1,250 billion, up from US$1,109.1 billion as at June 2004.

Generally, the banking sector has remained well capitalised with locally incorporated banks maintaining risk adjusted capital adequacy ratios in excess of 12 percent and quality performing assets.

The industry as a whole has been relatively resilient in a very challenging market. The domestic market continued to be serviced by six retail banks, three of which are subsidiaries of international banking groups, with another international group operating through a branch. As at 30 June 2005, the aggregate assets attributable to the domestic operations of the six retail institutions declined slightly, in tandem with the decreases in total loans and total deposits. Aggregate assets were US$ 9.0 billion, with loans totalling US$ 3.3 billion and deposits of US$ 7.9 billion, compared to June 2004, when aggregate assets were US$ 9.3 billion, the aggregate loans issued were US$ 3.4 billion and the aggregate deposits held were US$ 8.5 billion. The decline over the period was due in part to the repositioning and restructuring of some of the banks' positions. Loan demand in the retail sector, however, remains strong.

Globally, financial institutions have continued to consolidate as they seek to achieve synergies through mergers, realignment and restructuring. This trend, which has impacted the number of institutions active in international centres around the world, is also evident in the decrease in the number of bank licensees in the Cayman Islands. As at the 30 June 2005 there were 312 banks licensed in the jurisdiction compared to June 2001 when there were over 400 bank licensees.

Active Banking Licences



The jurisdiction continues to have two main categories of banking licences, namely categories A and B. The Category A banking licence allows financial service providers to operate both in the international and domestic market, whilst the Category B banking licence permits international banking business, and only limited domestic activity. There were 22 institutions holding Category A licenses at 30 June 2005, which represents no change since 30 June 2004. As the chart above shows, there has been a steady decline in the number of Category B licences over the past five years. While mergers and acquisitions have been a key factor in the decline, a number of institutions, which traditionally held multiple licences, have also consolidated their activities into one entity.

For the 12-month period 1 July 2004 through 30 June 2005, the Monetary Authority issued seven new banking licences, compared to the previous period ending 30 June 2004, which saw nine new licences issued. During the period under review, 29 banking licences were surrendered. While the jurisdiction continues to attract banks from all over the world, it continues to be the choice jurisdiction for well established European and U.S. banking groups. Currently, there are 192 branches and 95 subsidiaries of international banks licensed in the Cayman Islands.

An objective of the licensing criteria is to ensure that only fit and proper persons own, control and manage banking institutions and that the business and affairs of these institutions are properly run with appropriate governance and internal controls, in compliance with the relevant regulatory laws and regulations.

Inspection Programme

Off-site monitoring continues to play an integral role in the Authority's risk based supervisory approach and complements the Banking Division's on-site inspection programme. The objective of the inspection process is to assess a licensee's compliance with applicable legislation, regulations, policies and internationally accepted standards.

The division's off-site monitoring activities are compliance based. In order to facilitate effective off-site monitoring, licensees are required to provide accurate and timely information through the completion of prudential returns detailing their balance sheet activity. The data generated from these returns allows the Banking Division to complete regular analytical reviews of institutions. As part of its off-site monitoring, CIMA conducts prudential meetings with licensees, discussing their strategies and performance, changes in business plan, and developments in the jurisdiction in which they originate. During the 12-month period under review the Banking Division conducted 239 prudential meetings.

In respect of on-site inspections, for the 12-month period ending 30 June 2005, the division conducted 18 full scope on-site inspections. While those institutions with offices in the Cayman Islands are inspected more frequently, the division also conducts inspections overseas, having visited banks in Panama and the British Virgin Islands during the period under review. The Banking Division also conducted joint inspections at banks on Grand Cayman with the Bank of Jamaica, the B.V.I. Financial Services Commission and representatives of the Superintendent of Banks of the Republic of Panama as part of those institutions' consolidated supervisory efforts.

It should be noted that the number of on-site inspections decreased during this period as a result of the impact of Hurricane Ivan. Though the Islands' financial industry speedily recovered from this devastating hurricane, the Authority's on-site inspection program was put on hold for a period following the hurricane in order to allow banks to recover from its effects. As a result of the damage caused by Hurricane Ivan, a number of banks temporarily relocated their business overseas until electricity and water were restored to the island and construction repairs were made to their office spaces.

The inspection programme has provided evidence of an improved compliance culture in most licensees, with the majority of financial institutions applying robust policies and procedures in line with international standards. In general, most banks have completed the retrofitting of the due diligence information on clients. Due to the volume of clients, a number of the retail banks continue to work on this project.

The Banking Division continued to monitor countries experiencing economic difficulties along with changes in the international regulatory arena, assessing the implications for Cayman licensed banks operating in developing markets.

Regulatory Developments

A primary issue facing the division is preparing for, and increasing the awareness of, the implementation of the New Capital Accord – Basel II in G-10 countries at the end of 2006. Given the size and scope of the Cayman Islands' banking industry and the fact that a significant number of the banks licensed here are members of major internationally active banking groups, CIMA will have to give serious consideration to the implementation of Basel II, at least for such institutions.

The Banking Division continues to hold discussions with local industry representatives and participated in a number of working groups and meetings to consider the implications of Basel II for the Cayman Islands and the region. The industry also benefited from presentations on operational risks and disaster recovery put on by the division following it's post-Hurricane Ivan survey on the effectiveness of the disaster recovery process that had been utilized by licensees.

In March 2005 the IMF published the findings of the review of the Cayman Islands financial system. The report, which was well received by the local industry, found that in the past two years an "extensive program of legislative, rule, and guideline development has introduced an increasingly effective system of regulation in the Cayman Islands, both formalising earlier practices and introducing enhanced procedures." The report noted that banking supervision was largely in compliance with the Basel Core Principles, and would benefit from technical enhancements to prudential guidance and requirements. The Banking Division is working with the Policy and Development Division to prioritise the agreed actions coming out of the recommendations.

As a result of the IMF review, and that of the Board of Director's Task Force on Banking Supervision, proposed amendments to the Banks and Trust Companies Law (2003 Revision) have been drafted and there has been some refinement to the division's risk based supervisory approach. Various supervisory policies have been reformatted as rules and statements of guidance, documenting and formalising the policies and practices of the Banking Division to further enhance its transparency and effectiveness.

FIDUCIARY SERVICES DIVISION

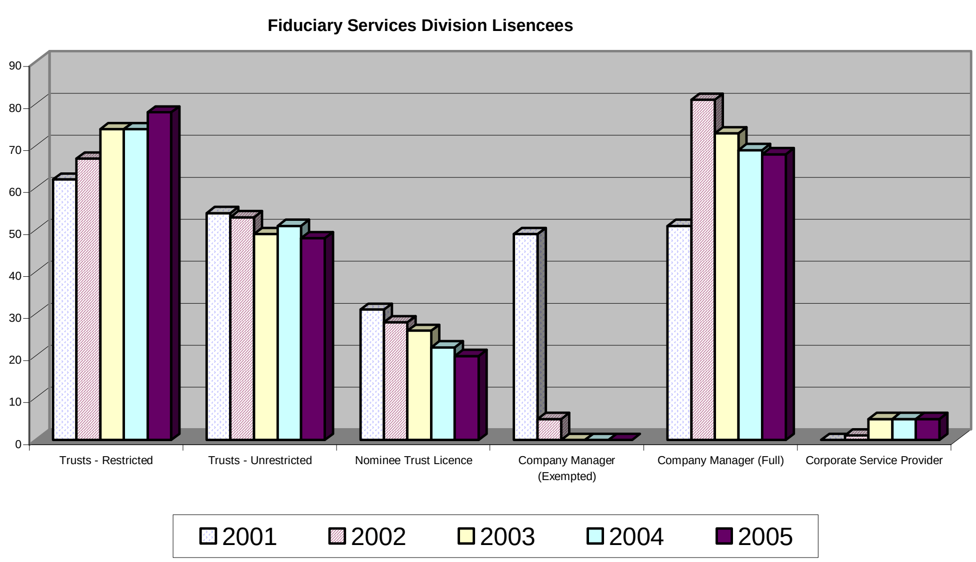
The Fiduciary Services Division licences and supervises trust and corporate services providers that wish to operate in or from the Cayman Islands. The Fiduciary Division performs its regulatory functions pursuant to the Monetary Authority Law (2004 Revision), the Banks and Trust Companies Law (2003 Revision) and the Companies Management Law (2003 Revision).

In the absence of internationally accepted core principles for trust and company services providers, the fiduciary sector has embraced the Statement of Best Practice produced by the Trust and Company Service Providers Working Group that was set up by the Offshore Group of Banking Supervisors (OGBS). The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD as well as representatives of four G7 countries. The Statement of Best Practice was disseminated to the fiduciary sector via the Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was locally accepted as appropriate guidelines for the proper conduct of trust and corporate business.

Industry Trends

At the end of June 2005 the Fiduciary Services Division had supervisory responsibility for 146 active trust licences. These licences were comprised as follows: 48 (unrestricted) trust licences, 78 restricted trust licences and 20 nominee trust licences. This compares to a total of 147 trust licences as at 30 June 2004, comprising 51 (unrestricted) trust licences, 74 restricted trust licences and 22 nominee trust licences.

For entities licensed under the Companies Management Law (2003 Revision), the period ending June 2005 saw stable numbers, with 75 active licences compared to 74 in June 2004. The number of active corporate services licences in issue remained at five.



As with the previous period, the period ending 30 June 2005 saw an increase in applications made for restricted trust licences, strongly suggesting that this jurisdiction continues to be favourably considered for the creation and administration of private wealth management structures. This gradual upward trend is expected to continue into the next period.

A working group, comprising staff of the Monetary Authority and a cross section of industry representatives, has been established for the purpose of reviewing and considering the appropriateness of the existing regulatory approach in respect of corporate services providers. The working group is intended to make recommendations for change to the existing regime, where appropriate. Any recommendations for legislative change will be subject to a broader consultation process with the industry.

Services offered in respect of special purpose structures that are created in relation to capital markets and securitisation related transactions are gaining popularity with local service providers. With the benefit of input from industry players, CIMA is considering how this jurisdiction could best service this growing business area while maintaining a top quality regulatory regime.

Inspection Programme

For the period commencing 1 July 2004, and ending in 30 June 2005, there were 15 full scope on-site inspections planned. In the aftermath of Hurricane Ivan in September 2004, the decision was taken to suspend further such inspections until 1 July 2005. There were therefore only four full scope inspections completed for the period.

The Fiduciary Services Division uses the Company Managers' Reporting Schedule for off-site monitoring of licensees under the Companies Management Law (2003 Revision). The bi-annual reporting form provides the division with prudential and non-prudential information, which assists in the identification of industry trends. The development of a similar form for the purpose of off-site monitoring of trust companies is nearing completion.

Regulatory Developments

Licensees recovered well from Hurricane Ivan. Disaster recovery plans that were tested by this natural disaster seemed to have attained a high level of success. As a result, the majority of licensed service providers were able to resume operations within a reasonable time frame. The industry has been encouraged to update and amend its respective disaster recovery plans in light of the lessons learned post-Ivan.

Emanating from the on-going task force review was the conclusion that a more focused risk-based approach to regulation would improve the effectiveness of the Fiduciary Services Division's discharge of its regulatory functions, more specifically in regard to the on-site inspection programme. The division has embarked on a risk assessment exercise that will be helpful in ensuring that requisite resources and an appropriate approach will be applied in regulating the trust and corporate services industry.

The working group that was started in the prior period to examine the disparity in the annual fees payable by trust companies and company services providers has not yet been concluded. The working group comprises members of the Authority and representatives of various industry associations and is chaired by CIMA's Managing Director. The working group intends to submit a report of its findings to the Cabinet through the board upon completion of its review.

INSURANCE SUPERVISION DIVISION

The Insurance Supervision Division regulates the insurance industry in accordance with the Insurance Law (2004 Revision) and is responsible for the supervision of insurance companies, managers, brokers and agents. Insurance companies operate within the Cayman Islands as Class A Insurers (writing domestic business) or Class B Insurers (writing non-domestic business only and commonly known as captive insurance companies).

Regulation of the insurance industry is based on compliance with the Core Principles of Insurance Regulation issued by the International Association of Insurance Supervisors (www.iaisweb.org) and acknowledged globally as the benchmark for best regulatory practice. The Cayman Islands is a charter member of this association. The Cayman Islands is also a member of the Offshore Group of Insurance Supervisors (www.ogis.net) and serves as secretary to this group.

Industry Trends

The number of active licences at 30 June 2005, compared to 30 June 2004, is as follows:

	Class A	Class B	Insurance Managers	Insurance Brokers	Insurance Agents	Total Licences
at 30/6/2004	29	663	23	28	67	810
at 30/6/2005	29	709	23	28	56	845

Licensees by type of license

There were, in total, 845 licences active at 30 June 2005. This included 709 captive licences, an increase of 46 over the 663 active at end of June 2004. Active licences in the Class A, insurance managers and insurance brokers categories ended the year at the same levels as at 30 June 2004, while the number of insurance agents licences declined by 11, ending the year at 56. The decrease in agents licences was the result of the surrendering of licences following reorganization within one company.

Captive market

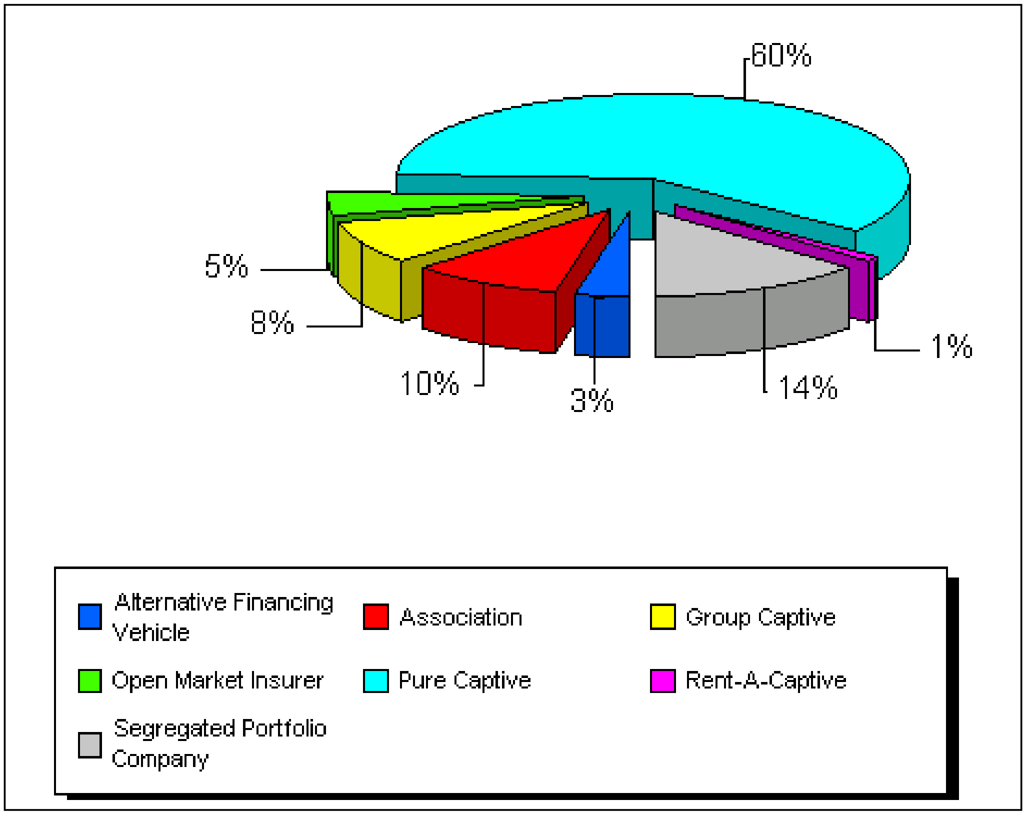
The captive insurance industry continues to flourish and the Monetary Authority maintains its proactive stance to the development of this industry and its efforts to attract quality business to the jurisdiction. CIMA's issuance of two new licenses within two weeks of the passage of Hurricane Ivan in September 2004 and the on-going captive licensing activity have been strong indications of the continued confidence in the Cayman Islands as a leading captive domicile[1]

Growth during the period has not only been reflected in the number of new captives licensed but also in the expansion of the business within the existing captives, particularly within those captives established as segregated portfolio companies. At

[1] A.M. Best reported Bermuda as the leading domicile in terms of numbers of captives at 31 December 2004, with 1216 active captives, and Vermont with 524 active captives. Cayman had 693 active captives at that date.

30 June 2005, captives licensed in the Cayman Islands reported gross written premium of just over US$6.1billion and total assets of just over US$25billion.

Healthcare continues to be the dominant line of business written, followed by workers compensation and property. Of the 709 captives active at 30 June 2005, 267 were healthcare related, 149 were writing workers compensation and 73 were writing property. Of the total number of licensees, 97 are segregated portfolio companies with a total of 420 segregated portfolios operating within them.



Captive Insurance Companies by Category, as at 1 July 2005

Hurricane Ivan caused no disruption to the captive insurance business. Most of the insurance managers, as part of their business continuation plans, moved staff off-Island as the hurricane approached and were ready, by the time the hurricane had passed, to operate temporarily from other jurisdictions. Those that stayed on Island, even if their offices did receive some damage, quickly found temporary accommodation and resumed business. This was also the case with other service providers and is a testament to the quality of managers and service providers operating within the jurisdiction.

The Insurance Managers Association of Cayman made a decision that plans would continue for the annual captive conference despite the decrease in the number of available hotel rooms following the hurricane. The conference, which took place at the Westin Hotel from 6 to 9 December, was attended by over 300 persons, attracted renowned speakers and was a huge success, demonstrating to the outside world that the Cayman Islands is capable and prepared to carry on the captive insurance business to the standard for which it is known.

Domestic market

In the domestic market, the devastation caused by the hurricane resulted in insured losses of CI$1.25billion[2], as reported to the Authority by the Class A insurers. This included an unprecedented motor loss of CI$61.78million, due primarily to inundation from the storm surge.

There were 11 insurance companies licensed to write property / casualty insurance within the Cayman Islands at the time of the hurricane. Three are locally incorporated while the others operate within the jurisdiction as branches of insurers incorporated elsewhere.

As a result of losses sustained during the hurricane, two Class A companies required capital injections. Additionally, one Class A company, Dyoll Insurance Company Ltd., headquartered in Jamaica and which had sustained losses in both Jamaica and the Cayman Islands, became insolvent. The Jamaican Financial Services Commission intervened and, in cooperation with CIMA, this company is currently being liquidated.

Following the passage of the hurricane, weekly meetings were held with the local insurance industry in an effort to monitor the claims settlement process and the solvency of the companies. The Cayman Islands had experienced its last major hurricane event over 70 years ago. As a result there appeared to be some unfamiliarity with claims procedures and some public indifference to insurance coverage that may have contributed to some of the problems encountered by policyholders. In particular, there seemed to be some lack of awareness as to the importance of insuring property for its full reinstatement costs. The subsequent application of “averaging” caused many customers to feel that their insurance policies had not responded in the way that they expected. Policyholders also felt some consternation over the large influx of insurance adjusters, many of whom were unfamiliar with the culture of the Islands as they were of necessity drawn from all areas of the world.

Despite the magnitude of losses and the problems encountered in the aftermath, the industry reported to the Authority at 30 June 2005 that 90 percent of claims had been settled, with those outstanding consisting mainly of large commercial property risks.

Inspection Programme

The Insurance Division has continued its very rigorous off-site monitoring program during this period. This involves, in addition to the review of annual audited financial statements, review and prior approval of any changes whatsoever to the business plans of the licensees operating within the jurisdiction. The Insurance Division also requires every Class B insurer’s insurance manager and boards of director’s representatives to meet with the Authority at least every 18 months. Representatives

[2] This figure of CI$1.25billion does not necessarily reflect total insured losses within the Islands as some properties, particularly hotels and condominiums, are insured off-Island and the Authority will not be made aware of this or receive any statistical or other reports on these properties.

of the Class A insurers are required to meet with the Authority every six months. This off-site monitoring is coupled with an on-site inspection program to ensure that a high level of regulatory oversight is maintained.

Regulatory Developments

As a result of recommendations made by the IMF following their assessment of the financial industry and recommendations arising from an internal review by a task force established by the Board of Directors of the Authority, a working group comprised of the Insurance Division, the Legal Division, Policy and Research Division and representatives of the insurance industry, and legal and accounting professions convened in January 2005. This working group is in the process of reviewing the insurance law and regulations and will make recommendations to the Governor in Cabinet on any changes deemed necessary to ensure that the law is transparent in its compliance with international standards, while recognising the business environment in the Cayman Islands. The Cabinet also requested that the Authority conduct an investigation into the domestic insurance industry following the complaints on underinsurance and the adjusting/claims process received from the general public after the hurricane. This report was submitted to Cabinet and, subsequent to the date of this report, released to the public and made available on the Authority's website[3].

[3] Web address: http://www.cimoney.com.ky/pages/aboutus/CIMA_Ivan_Final_1_6_5.pdf

INVESTMENTS AND SECURITIES DIVISION

The Investment & Securities Services Division (ISD) supervises and regulates mutual funds, mutual fund administrators and securities investment business as well as persons licensed to conduct securities investment businesses, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers. The division processes all applications for entities specified above and makes recommendations to the Authority's Board of Directors on the issue (or non-issue) of a licence when necessary. The division's supervision and regulation are carried out under the Mutual Funds Law (2004 Revision) and the Securities Investment Business Law (2004 Revision) and their regulations.

Industry Trends

While the last six months of the fiscal year ending 30 June 2005 have not been an exceptional period for global hedge fund performance in general, there has been no slow down in the assets allocated to this class of investment or in the number of new funds set up in the Cayman Islands.

The absence of a prescriptive regime mandating where the service providers to professional funds should be located, the depth of relevant professional services and expertise available, and the relatively swift turnaround time in the establishment of funds in the Cayman Islands continues to drive the growth in Cayman Islands regulated funds.

According to the May 2005 edition of *Hedge Fund Manager*, the Correctnet fourth bi-annual survey of fund administrators shows hedge fund assets are within touching distance of the US$2 trillion mark, an increase of approximately 23 percent since the last survey in November 2004. *Hedge Fund Manager* reports that assets held by hedge funds have almost trebled within an 18-month period. Despite the likelihood of double-counting of assets by administrators with fund-of-fund and master-feeder structures, this rate of growth is also reflected in the increase in Cayman Island regulated funds with the ISD processing an average of 35 mutual fund applications per week in 2005 compared to 10 per week in 2003.

The number of mutual funds grew from a total of 5,399 as at 1 July 2004, to 6,527 as at 30 June 2005. This net increase of 1,128 funds was a result of 1,518 new funds being processed and 390 terminations for the year ending 30 June 2005. Of the total funds, 5,842 were registered mutual funds, 598 were administered funds, and 87 were licensed funds. The division expects to end calendar year 2005 with more than 7,000 active funds.

Mutual Fund Type	Active at 30 June 2004	Terminated 1/7/04 to 30/6/05	Issued 1/7/04 to 30/6/05	Active at 30 June 2005
Registered	4,738	338	1,442	5,842
Administered	606	50	42	598
Licensed	55	2	34	87
Total	**5,399**	**390**	**1,518**	**6,527**

Mutual Funds by Licence Category

In addition to authorising mutual funds, the division handles licence applications for mutual fund administrators and regulates their activities. Licences are issued in three categories, namely: full administrators, restricted administrators, and exempted administrators. As at 30 June 2005, the number of licences held in each category respectively was 83, 70 and seven. The most notable change in licence numbers was in respect of restricted administrators, with the number of licensees falling by 22 during the reporting period. The primary reason for this reduction is that many of these former licence holders have now registered as excluded persons under the Securities Investment Business Law ("SIBL") by virtue of the fact that they provide investment management and/or advisory services exclusively for sophisticated persons, which includes within its definition entities regulated by CIMA.

Licence Type	Active at 30 June 2004	Terminated 1/7/04 to 30/6/05	Issued 1/7/04 to 30/6/05	Active at 30 June 2005
Full	82	5	6	83
Restricted	90	22	2	70
Exempted	7	0	0	7
Total	**249**	**27**	**8**	**160**

Mutual Fund Administrator Licences by Category

According to the May 2005 edition of *Hedge Fund Manager*, the Correctnet fourth bi-annual survey of offshore fund administrators shows the top 15 administrators responsible for more than 80 percent of the US$1.9 trillion hedge fund assets, with 13 of these 15 administrators holding a mutual fund administrators licence issued by the Authority.

As a consequence of the growth in hedge funds globally, the Cayman Islands witnessed more interest by larger financial institutions, particularly with prime brokerage units, in establishing a fund administration business or acquiring an independent niche administrator to add to their product range. Recently, the Authority has received a significant number of requests from onshore administrators for information on the licensing process. Going forward into the new fiscal year the division expects to see more fund administrators licensed that establish a physical presence in the Cayman Islands.

Under the Securities Investment Business Law (2004 Revision) (SIBL) a person who carries on securities investment business in any one or more of the activities set out in Schedule 2 is required to obtain a licence unless exempt from doing so. By June 2005 ISD had assessed 30 licence applications, approving 24, with the balance being withdrawn prior to determination of the application. In addition, ISD has received 798 excluded persons declarations under Schedule 4 of SIBL.

In April 2005, pursuant to the Securities Investment Business (Financial Requirements and Standards) Regulations, 2003, ISD requested all SIBL licensees to submit their financial reports for the quarter ending 31 March 2005. As this was the first quarter reporting commenced, ISD will work with all licensees to ensure consistency in application of the regulations. ISD will use the information provided by this quarterly report to assist with the risk assessment of licensees to determine the priority of inspections in the new financial year.

Inspection Programme

The inspection programme for licensed mutual fund administrators was suspended in the third quarter of 2003 as scarce resources were diverted to cope with the significant increase in new fund registrations. Conditional upon an increase in staffing during the 2005-2006 financial year, the division intends to re-establish a risk-based focused inspection program that prioritises licensees based upon a number of risk criteria.

With regard to off-site supervision, ISD is presently in consultation with the industry regarding the development of prudential returns and annual declarations by all regulated entities. In addition, the division is seeking to introduce electronic filing of audited accounts to improve efficiency and provide for scalability.

Regulatory Developments

In August 2004 the board approved 25 recommendations of the Mutual Funds Working Group and, subject to final Cabinet approval, these will form the basis for reform of the Mutual Funds Law. It is ISD's intention to recommend a similar working group to review the existing regulatory regime in the Cayman Islands with respect to securities investment business and to make recommendations on necessary changes to enhance the regime.

On 14 March 2005 the IMF released its report assessing the jurisdiction's securities regulation against the International Organization of Securities Commissions (IOSCO) and Financial Action Task Force (FATF) standards. Only one of IOSCO's 30 objectives and principles of securities regulation were not observed and ISD will be looking to implement all recommendations that are appropriate to the nature of the Cayman Islands fund regime.

The Authority has agreed to participate in the IMF Information Framework Initiative subject to an extended deadline for the funds industry.

Many regulators in major financial centres have expressed concern with the risks associated with the activities and growth of hedge funds. As the jurisdiction of choice for the establishment of the majority of the world's hedge funds, and many years experience of providing a regulatory and legal framework for such funds, CIMA is confident that its regulatory philosophy for non-public funds is appropriate. The Authority is committed to improving global understanding of the hedge fund industry and participates in a number of initiatives with this objective.

NON-SUPERVISORY DIVISIONS

COMPLIANCE DIVISION

The Compliance Division is responsible for investigating serious breaches of the regulations and directing and administrating enforcement actions; researching and conducting due diligence on persons who have applied to act as directors, shareholders, managers, officers and controllers of licensed entities; and assisting on non-routine requests for assistance from overseas regulatory authorities.

The division has a cross-functional role and works closely with the supervisory divisions, the Managing Director, the Legal Division and the Policy and Development Division.

Enforcement Actions

The Monetary Authority has issued an *Enforcement Manual*[4], which describes the policies and procedures for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual sets out the range of tools available to the Authority to help it meet its regulatory objectives.

Where a licensee has failed to comply with the legislative or regulatory requirements, it will often be appropriate to address this without further need for formal disciplinary or other enforcement action. The Authority has developed a ladder of compliance, issued as part of the *Enforcement Manual*, detailing the steps it will follow in the event of non-compliance by a licensee or registrant. Where appropriate, CIMA will work with the licensee or registrant in an attempt to resolve regulatory issues prior to the exercise of enforcement action.

The division is responsible for investigating serious breaches of the regulations, collecting pertinent information and documentation, and recommending disciplinary actions, if appropriate. All enforcement actions are in conformance with the powers provided under the respective regulatory laws and the Authority will seek to ensure the fair treatment of those who are subject to the exercise of its powers. The following is a summary of the enforcement actions taken by the Authority against licensees and registrants during the reporting period:

Sector	Revocations	Appointment of Controllers	Winding Up Petitions	Other Enforcement Action[5]
Banking	0	0	0	0
Insurance	1	5	0	2
Investments & Securities	1	0	0	0
Fiduciary	0	0	0	0
Total	**2**	**5**	**0**	**2**

Enforcement Actions for 2004-2005

[4] The *Enforcement Manual* and other guidance documents issued by the Authority are available on its website, http://www.cimoney.com.ky/pages/aboutus/RH_AMD_Enforcement_Manual.pdf

[5] The other enforcement actions included the suspension of a licence and requiring a licensee to take action the Monetary Authority considered necessary.

The division spent considerable time this reporting period investigating and dealing with queries regarding entities that are not regulated or registered with the Authority that were conducting regulated business. In addition, the division dealt with numerous enquiries regarding fraudulent entities purporting to offer financial business services from the Cayman Islands.

Due Diligence

The Monetary Authority has issued *Guidelines - Fitness and Propriety*, a document setting out the criteria it will use to determine whether persons are fit and proper to act as directors, shareholders, managers, officers and controllers of licensed entities.

The Compliance Division researches and conducts due diligence on applicants referred to it by the regulatory divisions. The nature and scope of the work to be performed by the division is dependent on the risk assessment made on each application and may incorporate a range of steps, including independent verification of the documentation submitted and review of public information. The Authority has issued *Procedure – Assessing Fitness and Propriety*, setting out the procedure it will follow to assess the fitness and propriety of persons who have applied to act as (or are existing) directors, operators, senior officers, general partners, promoters, insurance managers or shareholders of licensed entities.

The number of due diligence applications referred to the division by the regulatory divisions during the reporting period totalled 163. A breakdown of these requests, by regulatory division, is as follows:

Division:	Banking	Fiduciary	Insurance	Investments
Number of Applications:	33	87	2	41

The Compliance Division reports its findings to the regulatory divisions which then make the final decision as to applicants' fitness and propriety to act as operators, senior officers, general partners, promoters, insurance managers or shareholders of licensed entities.

Other Activities

Information on the processing of non-routine requests for assistance (RFAs) from overseas regulatory authorities and suspicious activity reporting can be found in the Cooperative and Advisory Functions section of this Annual Report (pages 39-43).

LEGAL DIVISION

The Legal Division is responsible for providing in-house legal services to the Monetary Authority. Its duties include: the provision of legal advice to the Board of Directors, the Managing Director, and the supervisory and other supporting divisions; the provision of litigation services; the development of proposals for legislative enactments or amendments to relevant laws and regulations and the provision of related drafting instructions on the request of the Financial Secretary; the drafting of directives or requirements under the Monetary Authority Law (2004 Revision); the preparation of memoranda of understanding (MOUs); and the co-ordination of assistance to overseas regulatory authorities (ORAs).

The Legal Division works closely with other sections of the Monetary Authority, including the Compliance Division on enforcement matters, and the Policy & Development Division on the ongoing development and review of the *Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands*. In general, the Legal Division seeks to ensure that the Monetary Authority's procedures permit it at all times to act within the spirit and letter of the laws governing its work and to keep these laws under review to ensure that they remain effective.

Guidance Notes

The division continues to work with the Policy and Development Division and the Managing Director to address matters related to the *Guidance Notes*, and is actively involved in the work of the Guidance Notes Committee, which comprises representatives from the Authority, the financial industry and the Government. In particular, the sector specific guidance section dealing with insurance in the *Guidance Notes* was amended in accordance with the IMF's suggested recommendations.

International Initiatives

During the period, the Legal Division was involved, along with the Managing Director, in ongoing discussions with IOSCO regarding CIMA's application for membership of that body.

In November 2004, the General Counsel along with the Managing Director attended the IMF's Round Table on Offshore Financial Centres, which was held in Basel Switzerland from 1 to 3 November 2004. From 23 to 25 May 2005, the General Counsel attended the Seventh Biennial Regional Central Bank Legal Seminar, which was held in Aruba.

Other Activities

The Legal Division's activities relating to the negotiation of memoranda of understanding and provision of assistance to overseas regulatory authorities are covered in the Cooperative and Advisory Functions section of this Annual Report (see page 39-43).

POLICY AND DEVELOPMENT DIVISION

The Policy and Development Division is responsible for researching topics relating to the financial industry and regulation, and for drafting policy. The division has a cross-functional role, providing support to the Monetary Authority's four supervisory divisions through information, advice on policy issues, and recommendations on required changes to policy and legislation for the financial sector.

The division is responsible for co-ordinating the development of instruments applicable to, and for the benefit of, financial services providers. The aim is to ensure that they are well regulated in accordance with applicable international standards such as the Basle Core Principles for Banking, the International Organization for Securities Commission (IOSCO), and the International Association of Insurance Supervisors (IAIS). The division is also responsible for the production of statistics on Cayman's financial Industry.

Guidelines, Policies and Procedures

During the reporting period the primary focus of the division continued to be the formulation of prescribed industry guidelines. This undertaking was initiated as the "Policy Project" in the latter part of 2001, as part of the development of a formal regulatory framework for the supervisory divisions with particular emphasis on the development of guidance for the securities industry. At the present time much of the original work started in 2001 has been adapted to form rules, statements of guidance, statements of principle and policies and procedures that fall within the Authority's *Regulatory Handbook*[6].

Following the independence of the Monetary Authority in March 2003, policies and guidance that had not yet been issued to industry were subject to a "rebadging" exercise to ensure consistency with the Monetary Authority Law (2003 Revision). Section 34 (1) to (7) of the law, dealing with the issuing of rules and statements of principle and guidance, requires CIMA to review policies and guidelines previously issued to ensure that they are appropriately categorized. An internal committee chaired by the Legal Division was set up to devise a working definition of the different categories and a preliminary classification of existing policies and guidelines. This exercise has resulted in some additional consultation with the private sector, particularly in cases where it is decided to include the imposition of penalties for the breach of rules as provided for under Section 34 (1) of the revised law.

The following new statements of guidance were approved, gazetted and posted on the Monetary Authority's website in April 2005 under "Rules, Statements of Guidance & Principles:"
Banks[7] -

[6] The *Regulatory Handbook* can be found on the Authority's website at: http://www.cimoney.com.ky/templates/HTMLPage/defaultdisplay.asp?text_id=HTMLPage90038&button=1

[7] On the website: http://www.cimoney.com.ky/templates/HTMLPage/defaultdisplay.asp?text_id=HTMLPage90040&button=1

- Statement of Guidance on Responsibilities of Authorised Agents of Banks and Trust Companies;
- Statement of Guidance on Country and Transfer Risk Management by Banks.

Investments and Securities[8] -

- Statement of Guidance on Cancellation of Certificates of Registration (held by mutual funds registered pursuant to Section 4(3) of the Mutual Funds Law, i.e., a "registered mutual fund");
- Statement of Guidance on Cancellation of Certificates of Registration (held by mutual funds registered pursuant to Section 4 (1)(b) of the Mutual Funds Law, i.e., a "administered mutual fund");
- Statement of Guidance on Cancellation of Mutual Funds licenses issued pursuant to Section 5 of the Mutual Funds Law.

The following amended statement of guidance was also issued in April 2005 and posted to the website:

- Statement of Guidance on Client Understanding, Suitability, Dealing and Disclosure – Securities Investment Business.

In addition, the *Interim Regulatory Handbook* was revised in the following sections:

- Appendix G10: Criteria for Recommending to Cabinet Additions to Third Schedule of the Money Laundering Regulations (2003 Revision);
- Appendix G11: (Sample) Memorandum to Board – Addition to Third Schedule.

New sections were added to the *Interim Regulatory Handbook*[9], also in April 2005, as follows:

- The *Enforcement Manual*;
- Procedure – Issuing Notices of Decisions to Declined Applicants;
- Procedure – Mutual Funds and Mutual Fund Administrators Where Contact is Lost;
- Procedure – Redeemed Mutual Funds Unable to Comply with Audit Requirements;
- Procedure – Assessing Controller Costs;
- Templates – Assessing Controller Costs.

Non-routine Work Programme

The division was also tasked with developing a work programme for the Policy, Strategy & Relations (PS&R) sub-committee of the Board of Directors in order to identify and outline projects and project priorities identified by the board, the regulatory and compliance divisions and through Policy and Development's review of international developments and external assessments.

[8] On the website: http://www.cimoney.com.ky/templates/HTMLPage/defaultdisplay.asp?text_id=HTMLPage90043&button=1

[9] http://www.cimoney.com.ky/templates/HTMLPage/defaultdisplay.asp?text_id=HTMLPage90038&button=1

The 2004-05 PS&R work programme identified proposed guidance and procedures and related tasks in the following categories:

- anti-money laundering & counter financing of terrorism;
- general (guidance and procedures on regulatory matters that apply to multiple or all types of licensees);
- banking (guidance and procedures related to banking institutions, money services businesses, building societies);
- fiduciary (guidance and procedures related to trust companies, company mangers and corporate service providers);
- insurance (guidance and procedures related to insurance companies, insurance brokers, insurance managers); and
- investments & securities (guidance and procedures related to regulated mutual funds, mutual fund administrators and investment securities businesses).

The PS&R work programme was then developed into a more comprehensive work programme for the Authority (for non-routine tasks and projects) and included CIMA/industry working group projects and legal and legislative projects.

Methodology for Determining Staffing Needs

Given the need for efficient and effective use of resources, and in the interest of transparency, the Authority developed a methodology for determining staffing needs in the regulatory divisions. The methodology involves:

1. determining for each division the nature, type, level and frequency of activities required to carry out its work in line with locally implemented international standards and the use of a risk-based approach to supervision;
2. determining any additional activities to be carried out by the division as part of its statutory obligations;
3. determining the man-hours required at each staff level to carry out each activity;
4. determining the total regulatory man-hours for the division to supervise all regulated institutions; and
5. determining the number of staff at each staff level needed to provide the total regulatory man-hours required.

In its drive to adopt a risk-based approach to supervision, the Authority also developed a risk rating methodology for the supervision of regulated entities. The methodology seeks to profile the risks faced by these entities so that supervision can be better targeted at areas and institutions where overall risks are higher. The broad risk groups identified in the framework include: financial soundness, environment, business plan, controls, organization, and management.

The risk ratings methodology incorporates a reasonable degree of flexibility for the various regulatory divisions, given the different type of entities supervised. Each division assigns weights to the various risk groups, as well as the specific risk factors under each of the risk groups. Due to time and resource constraints, the Authority opted, in the interim, to implement an abridged version of the risk rating methodology based on experience and institutional knowledge of the risks faced by licensees. The Authority will be presenting its findings on staffing needs to the Government during the 2005/2006 financial year.

COOPERATIVE AND ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

The Monetary Authority Law (2004 Revision) lists the provision of assistance to overseas regulatory authorities as one of the principal functions of the Authority. Such international cooperation takes place through the exchange of information, as provided for in the law and facilitated through memoranda of understanding, as well as through the Authority's active participation in international fora (see "Role and Functions of the Monetary Authority," pages 5-6).

Memoranda of Understanding

From 1 July 2004 to 30 June 2005, the Legal Division drafted, negotiated and signed, on the Authority's behalf, bilateral MOUs with regulators in Bermuda and the Isle of Man. The Authority also entered into a regional multi-lateral MOU with nine other regulators, dealing with cross border supervision arising out of the merger of Barclays Bank Plc and the Canadian Imperial Bank of Commerce to form the First Caribbean International Bank. Another cooperative agreement, the Undertaking on Exchange of Information in Securities Matters with the United States Securities and Exchange Commission (SEC), was signed in June 2005. These agreements are in addition to MOUs already in place with Jamaica, Panama and Brazil.

The division also negotiated an MOU with the Jersey Financial Services Commission, which, at 30 June, was awaiting Cabinet approval. Discussions on MOUs with the Dubai Financial Services Commission and the Italian securities regulator, CONSOB, were initiated and were ongoing at the time of this report. Negotiations were also in progress with the Office of Insurance Commissioner, Washington State, USA; the Office of Superintendent of Financial Institutions (OSFI), Canada; the Commodity Futures Trading Commission (CFTC), Washington D.C., and the Swiss Federal Banking Commission. The MOU currently in force with Brazil is in the process of being updated.

On the domestic level, CIMA and the Financial Reporting Authority signed an MOU on 1 December 2004, recognising the need for mutual cooperation and information in the carrying out of their respective functions and duties under the relevant laws and regulations.

Assistance to Overseas Regulatory Authorities

An ongoing activity for the Legal Division is advising on, and co-ordinating responses to, requests for assistance from overseas regulatory authorities (ORAs). In this regard the Legal Division works closely with other divisions to ensure that requests are handled in a timely and efficient manner and that they conform to the requirements of the Monetary Authority Law (2004 Revision). From 1 July 2004 to 30 June 2005, the Authority processed 101 ORA requests for assistance.

The Compliance Division's mandate includes assisting the Legal Division in processing non-routine ORA requests in accordance with Section 50 of the Monetary Authority Law (2004 Revision). The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions. The Monetary Authority's *Procedure - Dealing* *with Requests for Assistance from an Overseas Regulatory Authority (ORA)*[10] sets out CIMA's approach in dealing with these requests. During the reporting period, the Compliance Division assisted on 11 non-routine overseas regulatory requests from six ORAs.

IOSCO

The Authority initiated membership discussions with the International Organization of Securities Commissions (IOSCO) in 2004 in furtherance of its desire to participate fully in all international organizations where Cayman has major industry interests at stake. The discussions have centred on cross-border cooperation. In furtherance of the membership application, the Authority has invited leading members of IOSCO to enter into discussions on bilateral memoranda of understanding or other cooperation agreements with respect to securities and related matters. These discussions are at various stages of development.

Basel II

Discussions continued with the banking sector and other stakeholders on how, when and to what extent to implement the Basel II Capital Adequacy Framework. The Basel Committee on Banking Supervision issued the new accord in June 2004. It gives regulators the discretion to dictate the minimum requirements for capital adequacy for their jurisdictions. The Authority carried out a survey within the banking sector to determine implementation plans by parent banks and the potential implications for the local companies and their parent institutions. The Authority also participated in educational sessions with the industry.

IMF Assessment

Following the Cayman Islands' participation in the International Monetary Fund's offshore financial centre assessment program, the final report by the IMF on the supervision and regulation of this jurisdiction's financial services industry was released in March 2005. The assessment by a 10-member team that visited the Islands in the third quarter of 2003 found the jurisdiction's regulation and supervision broadly compliant with international standards. The report said, "An extensive program of legislative, rule and guideline development has introduced an increasingly effective system of regulation, both formalising earlier practices and introducing enhanced procedures." The report further stated that "the supervisory system benefits from a well-developed banking infrastructure with an internationally experienced and qualified workforce as well as experienced lawyers, accountants and auditors," adding that, "the overall compliance culture within Cayman is very strong, including the compliance culture related to AML (anti money-laundering) obligations…"

The assessment provided useful recommendations, several of which had already been acted on based on the team's preliminary report and on CIMA's prior self-assessment. Recommendations included enhancement of prudential requirements and guidance to fully implement the Basel Core Principles. This was undertaken through the issuance of statements of guidance over the past two years. The Insurance Working Group review of legislation governing the sector has been a major step in the formalization of good practices in insurance regulation, rules and statements of guidance, as

[10] On the CIMA website:
http://www.cimoney.com.ky/pages/aboutus/RHA_Revised_ORA_Procedures.pdf

recommended by the IMF report. The recommendation that a clearer distinction be drawn between private and public (retail) mutual funds and the strengthening of the regime for public funds have been addressed as part of the Mutual Funds Working Group recommendations to the Cabinet.

IMF Information Framework

The Authority agreed to participate in the IMF Information Framework Initiative subject to an extended deadline for the funds industry. To this end, a new customised form for mutual funds has been created, which will seek to obtain the information required by the IMF where this information in aggregate form is deemed useful to both CIMA and industry. The Authority is in consultation with the various private sector associations on the manner in which the statistical information should be collected across the significant number of regulated funds in the Cayman Islands.

ADVISORY ACTIVITY

The Monetary Authority Law (2004 Revision) also requires CIMA to advise the Government on monetary, regulatory and cooperative matters, and to consult with the local private sector on proposed measures.

Money Laundering Reporting

The Head of Compliance is the Monetary Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Criminal Conduct Law (2001 Revision). Any suspicion of money laundering identified by the staff of the Authority in conducting their supervisory activities is reported to the MLRO, who has the responsibility to report to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2003 Revision). During the reporting period the MLRO filed 17 suspicious activity reports with the FRA.

Task Force Reviews

The four strategic task forces that the Board of Directors established in 2004 submitted their findings to the Cabinet in April 2005. The task forces, each under the chairmanship of a board member, reviewed all aspects of regulation in relation to banking, insurance, investments and securities, and fiduciary services. Their work was carried out in two stages: a review of the regulations and legislation to ensure that such regulation meets the appropriate and relevant international standards, and a review of the organization, staffing and procedures within each regulatory division to ensure that it is sufficient and appropriate to accomplish the defined tasks. At the end of the period the Legal Division was preparing to retain a senior private sector lawyer on a short-term consultancy basis to consolidate the various task force reports and recommendations and to continue work on draft legislative amendments coming out of these reviews.

Working Groups

Working groups comprising staff of the Monetary Authority and a cross section of industry representatives were established to review and consider the appropriateness of the existing regulatory approach in respect of corporate services providers, trust companies, mutual funds and insurance services, and to make recommendations for appropriate changes to the existing regime. The working groups are the result of recommendations of the task forces and from the IMF Review. Any recommendations for legislative change by the working groups are subject to Cabinet approval and to a broader consultation process with the industry.

The working group assessing the regulation of corporate services providers was continuing its work at the end of the reporting period. Deliberations include how this jurisdiction can best service the growing interest in services supporting special purpose structures created in relation to capital markets and securitisation related transactions, while maintaining a top quality regulatory regime. The working group examining the disparity in the annual fees payable by trust companies and company services providers was also continuing its deliberations at the end of the reporting period, as was the Insurance Working Group.

In August 2004, the Authority's Board of Directors approved 25 recommendations of the Mutual Funds Working Group. The Cabinet then gave its approval to forward the recommendations to the Private Sector Consultative Committee for further discussion. Pending final Cabinet approval, the recommendations will form the basis for reform of the Mutual Funds Law, to clarify and enhance the framework for mutual fund business.

Review of Domestic Insurance Industry

In light of issues arising in the aftermath of Ivan, the Authority continued to closely monitor domestic insurers to ensure they complied with the requirements of the insurance law and regulations. In December, the Monetary Authority Board of Directors initiated an overall review of the domestic insurance market, incorporating the Government's request to investigate claims of widespread underinsurance in the market, the application of the average clause as a result of this underinsurance, and the loss adjusting/claims settling process. Director Sir Alan Traill and Mr Terrence Fairs, principal, Fairs Reinsurance Consulting, conducted the study with assistance from the Authority's Insurance Division. Their report[11] was submitted to the Cabinet in May 2005 and subsequently released to the public in July 2005. It is the subject of consultation with industry and interested members of the public to identify where the legislation needs to be amended or introduced. However, many of the recommendations contained in the report have already been approved by the Cayman Islands Insurance Association on behalf of its members and are being put into effect.

[11] On the CIMA website: http://www.cimoney.com.ky/pages/aboutus/CIMA_Ivan_Final_1_6_5.pdf

ADMINISTRATIVE AND SUPPORT OPERATIONS

OPERATIONS DIVISION

HUMAN RESOURCES UNIT

The Human Resources Unit has responsibility for all employee matters relating to recruitment, employee training and development, as well as the administration of personnel polices, procedures and practices for the effective functioning and well being of the 96 employees on the Monetary Authority's staff as at 1 June 2005. The unit's objectives are largely driven by the human resource needs of the organization and the resources available to the unit to carry out identified strategies.

Employee Appraisal

A new appraisal process took effect as of 1 July 2004, aimed at ensuring ongoing dialogue between managers/supervisors and their team members, towards accountability and better management of expected behaviours and competencies. Under the process, both parties communicate about expected performance and development. The new process enables better management of the organization's expectations, empowers employees to take responsibility for their development in conjunction with the training and development specialist, and rewards good performance with upward mobility as and when the opportunity arises and when the individual is deemed ready for promotion.

The reward for an employee who performs above and beyond the norms of his/her job description is a one-off performance award payment at the beginning of the new financial year. The award is a percentage of the individual's salary. At the same time, there is room to recognise those individuals who remain dedicated and hardworking team members

Recruitment and Advancement

The unit strives to recruit and retain suitably qualified persons in order to meet the dynamic mandate of the Authority and the needs of its stakeholders.

As at 30 June the Authority's employees were distributed among the divisions as follows:

Division	Actual staff numbers at 30 June 2005	Approved staff numbers as per 2004-05 budget
Banking	15	22
Compliance	6	6
Currency Operations	6	6
Fiduciary Services	7	7
Insurance	12	10
Investments and Securities	16	15
Legal	4	5
Managing Director's Office	4	5
Operations (Accounts, Information Systems & Human Resources)	19	18
Policy & Development	7	5
TOTAL	**96**	**99**

The Authority has faced a challenging year particularly in the aftermath of Hurricane Ivan when its well-trained and highly qualified staff became even more attractive as recruits to the private sector. The period under review saw 13 resignations at most levels except senior management. Whilst turnover exists, however, overall staff numbers have remained relatively stable, as evidenced by figures for 2003 to 2005: 96 staff members at the end of June 2005, 97 at June 2004, and 94 at June 2003.

The unit constantly strives to recruit the most qualified, skilled and experienced individuals to fill those positions that have been vacated. It is one of the unit's ongoing goals to market supervision and the regulation of financial institutions as an attractive career option for young graduates. This is one rationale for its summer internship and work experience programmes, in which five tertiary and high school students participated during the reporting period.

Promotions

The following employees were promoted to the posts indicated between July 2004 and June 2005:

Rohan Bromfield	– Deputy Head, Fiduciary Services
Yolanda McCoy	– Chief Analyst, Investments & Securities Division
Monique Minzette	– Senior Analyst, Banking Supervision
Tara Parsons	– Senior Analyst, Compliance Division

Training and Professional Development

A priority of the unit is providing opportunities for staff development to enhance the Authority's efficiency and CIMA continues to build upon the business relationship with local and overseas bodies and organizations that find mutual benefit in the sharing of experience and skills.

In February 2005, the Authority hosted the Federal Reserve System's Bank Analysis and Examination School, attended by CIMA staff and 22 representatives from Aruba, Belize, Curacao, the Netherlands, Guyana, Jamaica, St. Lucia, Suriname, and the Turks & Caicos Islands. Two senior Investments and Securities Division officers participated in the Securities and Exchange Commission International's two week internal securities market development training in Washington D.C. at the invitation of the SEC, and in an Ontario Securities Commission investigations training course in Toronto. In addition, the Caribbean Regional Technical Assistance Centre fully sponsored the participation of one of the Authority's banking analysts in the PEARLS credit union supervision training.

A senior officer from the Compliance Division participated in a three-month attachment at local risk consulting firm Kroll (Cayman), gaining insights on insolvency restructuring and the handling of liquidations and controllerships. An officer from the Policy and Development Division participated in a three-week attachment with the Eastern Caribbean Central Bank's Research Department, strengthening skills in implementation and analysis of statistical surveys, reports and trends.

Representatives from the Authority participated in at least 29 overseas and four local conferences during the year, covering regulatory, compliance, enforcement and other aspects. Information from these events was shared throughout the organization via

CIMA's Intranet site. The site, designed to facilitate cross-divisional learning, was expanded to include reports from employees attending conferences, seminars and meetings.

Advanced Education
Two employees, Yolanda McCoy and Talia Woods, earned professional qualifications and specialist designations during the period. The former earned an MBA in banking and finance, the latter an associate degree in insurance services. Several other employees were in the process of professional upgrading. This includes employees from across the Insurance Supervision, Policy & Development, Investments & Securities and Banking Supervision divisions, who have either been sponsored by the organization or have opted to self-support studies towards certification by the Association of Certified Anti-money Laundering Specialists. In the Compliance Division, 95 percent of the staff has already been certified.

Internal Training Workshops
The unit continued to provide training for all staff on suspicious activity reporting, security and confidentiality, and anti-money laundering. Employees at various levels also benefited from soft skills workshops on such topics as enhancing working relationships, business writing and understanding financial statements. The unit also held overview workshops designed to help employees better understand the fields in which CIMA operates. Lunch & Learn sessions have proven to be very popular amongst the analysts. At these internal workshops, division heads and senior staff share their knowledge and particular expertise on topical issues regarding financial regulation and global industry.

INFORMATION SYSTEMS UNIT

The Information Systems Unit is responsible for the maintenance of the Authority's existing information systems and the review and planning of new implementations and developments.

CIISMA Redevelopment
During the reporting period one of the primary activities of the unit was laying the foundation for the redesign and development of the Authority's enterprise information management system (CIISMA). The Information Systems Unit completed an update of its documentation of existing application features used in CIISMA by the Authority. The project is now awaiting the completion of an update of the Authority's divisional manuals, which is necessary to ensure that CIISMA's features map to the Authority current business practices.

CIMA Website
Following a board-level review of the CIMA website, the decision was taken to modify the current method of website maintenance. This change involves the replacement of the website system with a new one which natively supports content management. This new content management system will provide divisions with direct access to updating content within their respective website sections and will include and approval process for the content to be published to the website. This new

system will ensure that the website continues to be a key tool for the Authority's stakeholders. This project is expected to be completed at the end of 2005.

IT & Telephony Business Recovery Plan

With the completion of the Authority's Business Continuity Plan, the Information Systems Unit was tasked with developing the Information Technology & Telephony Business Recovery Plan. This plan would provide for the resilience of the Authority's existing technology infrastructure and the implementation of recovery systems at a designated recovery centre. The unit expected to complete this project in late 2005.

ACCOUNTS UNIT

The Accounts Unit has responsibility for all financial matters relating to budget, annual licence fee collection, payroll, and accounts payable. The unit is also responsible for preparation of the Monetary Authority's financial statements and the Purchase & Ownership Agreements between the Cabinet of the Cayman Islands Government and the Authority (see page 5, "Role and Functions of the Monetary Authority - Relationship with Government"). The unit's objectives are essentially created by the financial requirements of the organization and its stakeholders and the resources available to it.

Financial Position

The Authority's financial statements for the year ended 30 June 2005 show total assets of $92.9 million. These included $90.1 million of currency reserve assets, representing investments and current, call and fixed deposits. Short-term investments consisted of US-issued discount notes. Long-term investments comprised US government agency-issued mortgage backed securities. Total liabilities of $73.5 million included $72.8 million of demand liabilities for currency in circulation, which are secured by the currency reserve assets as required by the Monetary Authority Law.

Total reserves and capital amounted to $19.4 million. As detailed in the Currency Operations section of this Annual Report (page 17), the general reserve of the Authority temporarily fell below the legally required 15 percent of demand liabilities. This shortfall has been funded through a transfer from paid-up capital. Net income for the financial year 2004/05 was $2.4 million.

MANAGING DIRECTOR'S OFFICE

PUBLIC RELATIONS

The Monetary Authority endeavours to maintain and enhance relationships with its stakeholders through ongoing provision of information and through dialogue, consultation and collaboration as appropriate.

In seeking to fulfil its obligation for transparency, one of the Authority's tools is its website, on which it posts information on the Authority and how it operates, regulatory requirements for current and potential licensees (including the applicable laws, regulations, rules, policies and statements of principle and guidance), licence statistics, frequently asked questions, consultation documents and reports, public notices, etc. Information is also disseminated directly to the media and/or other target groups through press releases, the quarterly *Navigator* newsletter, the *Data Collection Update* produced by the Policy and Development Division, and through the annual report.

The Authority responds on a routine basis to enquiries about the organization, the financial industry and particular industry-related issues from representatives of local and overseas news and specialty papers, journals and websites as well as from industry colleagues and members of the public. Senior CIMA officers regularly make presentations at conferences and other formal and informal gatherings. In some cases, the Authority assists in organizing these events. Such occasions provide further opportunities to raise awareness of the Authority and its role; to update industry, regulatory partners and interested persons on CIMA developments, and to increase contact and two-way discourse between the Authority and the groups it serves.

These communication and relationship-building activities complement the one-to-one contacts between staff and the licensees they regulate. They are augmented by the Authority's involvement in local and international regulatory, industry and professional organizations, which give CIMA a voice in the development of best practice and the resolution of issues affecting the industry.

During the fiscal year 2004/05, the Authority assisted in organising and hosting the annual meeting of the Offshore Group of Banking Supervisors held in Grand Cayman. Representatives from 21 countries and several international regulatory bodies attended. Among material produced and disseminated during the year were some 38 releases; an 18-month report covering 1 January 2003 through 30 June 2004, the period during which the Authority became operationally independent; two issues of the *Data Collection Update* and four regular issues of the *Navigator*. The latter was transformed from a paper-based newsletter into an electronic publication during the reporting period. The major presentations done by CIMA officials, as well as the releases and publications mentioned are available in the "Media Centre" and "Publications" sections of CIMA's website (www.cimoney.com.ky). The website is currently being updated and reorganised.

Public relations activities are co-ordinated through the Managing Director's Office by the Public Relations Executive.