RULE

Compliance with Financial Sanctions and Targeted Financial Sanctions

July 2026

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List of Acronyms

AML	Anti-Money Laundering
AMLR	Anti-Money Laundering Regulations
BOTA	Beneficial Ownership Transparency Act
CIMA	Cayman Islands Monetary Authority
CRF	Compliance Reporting Form
CPF	Countering Proliferation Financing
CFT	Countering the Financing of Terrorism
FRA	Financial Reporting Authority
FSP	Financial Service Providers
MAA	Monetary Authority Act
ML	Money Laundering
OOIC	Overseas Orders in Council
POCA	Proceeds of Crime Act
PF	Proliferation Financing
PFPA	Proliferation Financing (Prohibition) Act
TFS	Targeted Financial Sanctions
TA	Terrorism Act
TF	Terrorism Financing

Rule on Compliance with Financial Sanctions and Targeted Financial Sanctions

1. Introduction

1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") *Rule on Compliance with Financial Sanctions and Targeted Financial Sanctions* (the "Rule").

1.2. The Governor is the Competent Authority for the implementation of Financial Sanctions in the Cayman Islands. However, the Governor has delegated the function of receiving certain reports and applications for Licences to the Financial Reporting Authority ("FRA").[1] Therefore, all reports relating to Targeted Financial Sanctions ("TFS") should be made to the FRA.[2]

1.3. The FRA is the Cayman Islands' Financial Intelligence Unit responsible for receiving, requesting, analysing and disseminating disclosures of financial information concerning the proceeds of criminal conduct or suspected proceeds of criminal conduct, to counter Money Laundering ("ML"), terrorism, and the financing of terrorism, or suspicions of any of those crimes.

1.4. In 2017, the FRA assumed the responsibility for ensuring the implementation of TFS with respect to terrorism, terrorist financing ("TF"), proliferation, Proliferation Financing ("PF"), and other restrictive measures related to Anti-Money Laundering ("AML"), Countering the Financing of Terrorism ("CFT") and Countering Proliferation Financing ("CPF"), in and from within the Cayman Islands.[3]

1.5. CIMA, in its role as regulator, assesses whether **Regulated Persons[4]** are aware of applicable international TFS, and any local designations or directions that are in force. CIMA also assesses whether Regulated Persons are aware of their compliance obligations, including, but not limited to, responsibilities for screening and reporting, ongoing monitoring and staff training. The Authority reviews the reports and returns of Regulated Persons, paying special attention to individuals, entities or countries listed on any autonomous list of designations and applicable international TFS.

1.6. The Rule should be read in conjunction with the following:

a) Proceeds of Crime Act ("POCA");
b) Terrorism Act ("TA");
c) Proliferation Financing (Prohibition) Act ("PFPA");
d) Beneficial Ownership Transparency Act ("BOTA");
e) Anti-Money Laundering Regulations ("AMLRs");
f) UK's Overseas Orders in Council[5] ("OOIC");

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[1] The FRA can be contacted at financialsanctions@gov.ky.
[2] A Compliance Reporting Form ("CRF") must be completed when making a report to the FRA. The CRF should be used when reporting suspected Designated Persons, frozen assets or suspected breaches of Financial Sanctions.
[3] FRA, *Financial Sanctions Guidance: General Guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018* (December 2021)
[4] As defined in subparagraph 2.1.15 of this Rule.
[5] The Cayman Islands are a British Overseas Territory. Therefore, the United Kingdom's ("UK") Overseas Orders in Council extend United Nations ("UN") and UK sanctions to the Cayman Islands. Furthermore, specific sanctions, such as those under the UK Terrorism and Terrorist Financing regimes, are directly implemented in the Cayman Islands pursuant to the TA. FRA, *Financial Sanctions 101: A quick guide to help you understand and comply with financial sanctions*, https://fra.gov.ky/guides-to-financial-sanctions/

g) CIMA's *Rule on Effective Compliance Programme for the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing for Financial Services Providers*;

h) CIMA's *Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands*;

i) the FRA's guidance on sanctions and PF[6], and any additional guidance issued by the FRA from time to time; and

j) any other relevant Acts, regulatory instruments and guidance issued by the Authority from time to time.

1.7. All Regulated Persons should be aware of the enforcement powers of CIMA and other Supervisory Authorities under the AMLRs.

2. Definitions

2.1. The following definitions are provided for the purpose of this Rule:

2.1.1. **"Competent Authority"** has the same meaning as defined in the AMLRs.

2.1.2. **"Compliance Reporting Form"** or **"CRF"** should be used to report all compliance-related information to the FRA, including information regarding suspected Designated Persons, assets that are frozen and suspected breaches of Financial Sanctions.

2.1.3. **"Connected Person"** has the same meaning as defined in the AMLRs.

2.1.4. **"Customer"** has the same meaning as defined in the AMLRs.

2.1.5. **"Designated Person"** has the same meaning as defined in the:

a) TA;
b) PFPA; and
c) relevant OOIC.

2.1.6. **"Economic Resources"** has the same meaning as defined in the TA.

2.1.7. "**False positives**" are potential matches to listed individuals or entities, either due to the common nature of the name or due to ambiguous identifying data, which on examination prove not to be true matches.

2.1.8. "**Financial Reporting Authority**" or "**FRA**" has the same meaning as defined in the POCA.

2.1.9. **"Financial Sanctions"** are restrictive measures put in place to limit the provision of certain financial services and/or restrict access to financial markets, funds[7] and Economic Resources to individuals or entities.[8]

[6] Guidance is comprehensively covered at https://fra.gov.ky/guides-to-financial-sanctions/
[7] "Funds" has the same meaning as defined in the TA.
[8] According to the FRA, Financial Sanctions are restrictions put in place by the UK or UN to achieve a specific foreign policy or national security objective.

2.1.10. **"Financial Service Providers"** or **"FSPs"** means all persons carrying on Relevant Financial Business specified in the POCA.[9]

2.1.11. **"Geographic Risk"** arises from a country or jurisdiction where customer transactions or business activity is located.

2.1.12. **"Licence"** means a written authorisation from the Governor permitting an act otherwise prohibited under the sanctions.

2.1.13. **"Money Laundering"** or **"ML"** has the meaning given by section 144(10) of POCA.

2.1.14. **"Proliferation"** has the same meaning as defined in the PFPA.

2.1.15. **"Regulated Persons"** means a natural person, legal person or legal arrangement[10] regulated by the Authority under the Regulatory Acts. [11]

2.1.16. **"Regulatory Acts"** has the same meaning as "Regulatory Laws", as defined in Section 2 of the Monetary Authority Act ("MAA").

2.1.17. **"Relevant Financial Business"** has the same meaning as defined in the POCA.

2.1.18. **"Sanctions List"** includes the UK Sanctions List and any other sanctions list that applies to the Cayman Islands as determined by the OOICs.

2.1.19. **"Supervisory Authorities"** has the same meaning as defined in the AMLRs.

2.1.20. **"Targeted Financial Sanction"** or **"TFS"** is a specific type of Financial Sanction with stated objectives, one of which is the prevention of TF and PF. The term TFS means both asset freezing and prohibitions, as well as directions, to prevent funds or other assets, including virtual assets, from being made available, directly or indirectly, for the benefit of Designated Persons and entities.

2.1.21. "**Terrorist Financing**" or "**TF**" has the same meaning as defined in the TA.

2.1.22. "**UK Sanctions List**" is published by the Foreign, Commonwealth and Development Office and provides a comprehensive list of individuals, entities and ships designated under the UK's Sanctions and Anti-Money Laundering Act 2018.

2.1.23. **"Without Delay"** means, ideally, within a matter of hours of a designation by the United Nations Security Council or its relevant Sanctions Committee. For the purposes of Cayman legislation, the phrase without delay means upon having reasonable grounds, or a

[9] CIMA recognizes that some Relevant Financial Businesses are supervised by other Supervisory Authorities. Therefore, this Rule applies only to those regulated and supervised by CIMA under the Regulatory Acts.

[10] Natural person, legal person and legal arrangement have the same meaning as defined in the AMLRs.

[11] The definition of Regulated Persons comprises of an authorised person, registered person, registrant, licencee, licence-holder and supervised person under the Regulatory Acts. These terms are used interchangeably in regulatory measures published by the Authority, from time to time.

reasonable basis, to suspect or believe that a person or entity is a terrorist, one who finances terrorism or a terrorist organisation. In both cases, the phrase without delay should be interpreted in the context of the need to prevent the flight or dissipation of funds or other assets which are linked to terrorists, terrorist organisations, those who finance terrorism, and to the financing of proliferation of weapons of mass destruction, and the need for global, concerted action to interdict and disrupt their flow swiftly.

3. Background

Sanctions

3.1. Sanctions are prohibitions and restrictions put in place to maintain or restore international peace and security. They generally target specific individuals or entities or particular sectors, industries or interests. Sanctions may be aimed at certain people and targets in a particular country or territory, or some organisation or element within them. Some sanctions target individuals and organisations involved in terrorism. For the purposes of this Rule, sanctions include international TFS and designations/directions issued under the TA and PFPA.

Financial Sanctions

3.2. Financial Sanctions are generally imposed to:

a) coerce a regime, or individuals within a regime, into changing their behaviour (or aspects of it) by increasing the cost on them, to such an extent that they decide to cease the offending behaviour;
b) constrain a target by denying them access to key resources needed to continue their offending behaviour, including the financing of terrorism or nuclear proliferation;
c) signal disapproval, stigmatising and potentially isolating a regime or individual, or as a way of sending broader political messages nationally or internationally; and/or
d) protect the value of assets that have been misappropriated from a country until these assets can be repatriated.

Targeted Financial Sanctions

3.3. TFS entail the use of financial instruments and institutions to apply coercive pressure on specific parties[12] to change or restrict their behaviour. TFS are targeted in the sense that they apply only to a subset of the population – usually the leadership, elites or individuals responsible for operational activities. TFS are financial in that they involve the use of financial instruments, such as asset freezes and the blocking of financial transactions or financial services.

[12] This includes natural or legal persons, government officials, elites who support them or members of non-government entities. However, this is not exhaustive.

3.4. Where the Financial Sanction takes the form of an asset freeze, it is generally prohibited to:

a) deal with the frozen funds or Economic Resources, belonging to or owned, held or controlled by a Designated Person or to a person who is owned or controlled directly or indirectly by a Designated Person;
b) make frozen funds or Economic Resources available, directly or indirectly, to, or for the benefit of a Designated Person; or
c) engage in actions that, directly or indirectly, circumvent the Financial Sanctions prohibitions.

3.5. Funds and Economic Resources are to be frozen immediately by the person in possession or control of them. An asset freeze does not involve a change in ownership of the frozen funds or Economic Resources, nor are they confiscated or transferred to the FRA for safekeeping.

4. Statement of Objectives

4.1. The Rule sets out the Authority's rules on Financial Sanctions compliance and TFS compliance obligations for Financial Service Providers ("FSPs") and Regulated Persons, which are regulated and supervised by CIMA under the Regulatory Acts.

4.2. The objective of issuing this Rule is to ensure that FSPs and Regulated Persons take a comprehensive approach to maintaining compliance with the AMLRs, as well as upholding international and domestic obligations with regards to Financial Sanctions and TFS; thereby strengthening the integrity of the financial system in the Cayman Islands.

5. Statutory Authority

5.1. The Rule is consistent with the Authority's principal functions under Section 6(1)(b) of the MAA, which provides that:

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

(b) regulatory functions, namely —

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

(ii) to monitor compliance with the anti-money laundering regulations; and

(iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other law;".

5.2. The Rule is also consistent with Section 34(1) of the MAA, which provides that the Authority may issue rules, statements of principle, or statements of guidance:

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

(a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any

other persons to whom and to the extent that the regulatory laws may apply;

(b) issue or amend statements of guidance concerning the requirements of the anti-money laundering regulations or the provisions of the regulatory laws; and

(c) issue or amend rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes."

5.3. In addition, Regulation 5 of the AMLRs requires Regulated Persons carrying out Relevant Financial Business to have systems and training to prevent ML, TF and PF. Further, Regulation 8 requires a person carrying out relevant financial business to take steps appropriate to the size and nature of the business to identify, assess and understand its ML risks, TF risks and PF risks. Therefore, this Rule supplements existing requirements under Regulations 5 and 8 of the AMLRs.

5.4. These Rules shall be read subject to the AMLRs. In the event of any conflict, inconsistency, or ambiguity between the provisions of these Rules and the AMLRs, the AMLRs shall take precedence and shall prevail.

5.5. Furthermore, with respect to all insurers regulated by the Authority under the Insurance Act, this Rule also supports existing requirements set out in the *Rule on Risk Management for Insurers*[13].

6. Scope of Application

6.1. In the Cayman Islands, everyone must comply with Financial Sanctions and TFS, including all individuals, business entities, FSPs and non-financial service providers. Compliance is not limited to Regulated Persons; it is a legal obligation across the jurisdiction.

6.2. CIMA recognizes that some FSPs are supervised by CIMA, while some are supervised by other Supervisory Authorities.

6.3. This Rule applies to Regulated Persons, which comprises of FSPs, who are regulated and supervised by CIMA under the Regulatory Acts[14].

6.4. References to any act or regulation shall be construed as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time.

7. Rules

General Obligations

7.1. Regulated Persons must make their sanctions compliance programme an integral part of their overall AML/CFT/CPF compliance programme. Therefore,

[13] Reference is made to Rule 5.1.4 (h) which provides that *"[t]he risk management framework must address the measurement, monitoring and control of all material risks. These risks may include, but are not limited to (h) money laundering, terrorist financing and fraud risk."*

[14] Irrespective of the type of financial business conducted in and from within the Cayman Islands.

Regulated Persons must have policies, procedures, systems and controls for compliance with Financial Sanctions and TFS.

7.2. When conducting risk assessments, Regulated Persons must consider any sanctions that may apply to applicants, Customers or countries.

7.3. Regulated Persons must not assess a Customer's Geographic Risk as *"low"* in circumstances where the country or geographic area that such Customer is located is subject to sanctions related to its ML/TF/PF risks by the United Kingdom, United Nations, United States of America and/or the Office of Foreign Assets Control.

7.4. Regulated Persons must screen applicants, Customers, beneficial owners[15], transactions, service providers and other relevant parties (including Connected Persons), to determine whether they are conducting, or suspected of conducting, business involving any Designated Person or individual associated with a Designated Person or sanctioned country.

7.5. As simplified due diligence does not reduce or waive screening obligations, Regulated Persons must re-screen all customers where there is an update to a Sanctions List, regardless of the customer's due diligence risk classification.

7.6. Where there is a true match or suspicion, Regulated Persons must take the steps that are required to comply with the sanctions' obligations, including reporting, pursuant to the POCA, AMLRs, TA, PFPA and OOICs.

7.7. Regulated Persons must file a CRF[16] with the FRA[17] if they discover a relationship that contravenes a sanctions order or a direction under the PFPA.

7.8. Regulated Persons must comply with all reporting requirements to the FRA related to their obligations specified under the OOICs.

7.9. Regulated Persons must document and record all actions taken to comply with Rule 7.6, along with the rationale for each action.

7.10. Regulated Persons must maintain and update internal records which are used to assess and determine whether an individual or an entity is a Designated Person, or is owned or controlled by a Designated Person or is a person who is owned or controlled directly or indirectly by a Designated person, in accordance with all relevant Sanctions Lists.

7.11. When a Sanctions List is updated, a Regulated Person must have systems in place to screen its existing Customers and Connected Persons, Without Delay, against the updated Sanctions List in accordance with Rule 7.4.

7.12. Regulated Persons must have in place policies, procedures, systems and controls for the ongoing monitoring of business relationships or one-off transactions for the purposes of preventing, countering and reporting TF and PF, which must also outline the identification process of assets subject to applicable TFS.

[15] With the exception of publicly traded companies where the responsibility for compliance with Financial Sanctions and TFS of the shareholders/owners lies with the securities intermediary, as required by a relevant competent authority.

[16] The form can be obtained from the FRA's website.

[17] Reporting is required under Section 2C of the PFPA and the FRA's guidance on sanctions.

7.13. Regulated Persons must comply with their legal obligations to:

7.13.1. regularly monitor sanctions, and take the necessary actions to amend systems or lists to include local designations[18] made by the Governor;

7.13.2. review their Customers and/or third-party service providers against the lists of Designated Persons and the UK Sanctions List, maintained by the Foreign, Commonwealth and Development Office;

7.13.3. if a Regulated Person knows or has reasonable cause to suspect that it is in possession or control of, or is otherwise dealing with, the funds or Economic Resources of a Designated Person it must:

7.13.3.1. freeze any accounts, other funds or Economic Resources belonging to, owned[19], held or controlled by Designated Persons;

7.13.3.2. refrain from dealing with frozen funds or Economic Resources or making them available to Designated Persons, unless licensed by the Governor; and

7.13.3.3. report to the FRA, via the CRF, Without Delay, if they know or have reasonable cause to suspect that a person or an entity is a Designated Person or has committed an offence under the TA or PFPA; and

7.13.4. disclose to the FRA, via the CRF, details of any frozen funds or Economic Resources or actions taken in compliance with the prohibition requirements[20] of all applicable sanctions, including attempted transactions.

7.14. Regulated Persons must ensure that clear, comprehensive policies and procedures are in place to guide staff, to ensure that their legal obligations and this Rule is being adhered to.

Sanctions/Orders[21] Monitoring

7.15. Regulated Persons must have in place and effectively implement internal controls and procedures to, Without Delay, ensure compliance with the obligations arising from the designation or delisting of an individual or an entity.

7.16. Regulated Persons must implement effective systems and controls to allow for the ongoing monitoring of transactions and to ensure that proper records are kept of these transactions.

[18] These designations are published in the Gazette and on the FRA's website.
[19] With the exception of publicly traded companies where the responsibility for compliance with Financial Sanctions and TFS of the shareholders/owners lies with the securities intermediary, as required by a relevant competent authority.
[20] Pursuant to the TA.
[21] The orders referred to here include those under the UK Sanctions List and the OOIC.

Asset Freezing/Freezing Mechanisms

7.17. Regulated Persons must freeze, Without Delay, and without prior notice, the funds or Economic Resources of Designated Persons or a person who is owned or controlled directly or indirectly by a Designated Person.

7.18. Regulated Persons must not make any frozen funds, Economic Resources, other assets, financial services or other related services, available, directly or indirectly, wholly or jointly, for the benefit of:

7.18.1. Designated Persons;

7.18.2. entities owned[22], held or controlled, directly or indirectly, by Designated Persons; and

7.18.3. individuals and/or entities acting on behalf of, or at the direction of, Designated Persons,

unless licensed by the Governor or authorised under the TA or the PFPA.

False Positives

7.19. To avoid False Positives, Regulated Persons must take reasonable steps to verify potential sanctions matches by comparing the name against other identifying information to determine whether the individual or entity is, in fact, the Designated Person.

Training and Internal Controls

7.20. Regulated Persons must provide regular training for staff on the identification of individuals, entities and/or frozen funds and Economic Resources subject to TFS, which must include the processes that are to be followed where such individuals, entities and/or frozen funds and Economic Resources are identified.

Reporting Obligations to the Competent Authority

7.21. Regulated Persons must implement appropriate policies, systems and controls to comply with the statutory reporting framework for sanctions reporting requirements as administered by the FRA.[23]

Unfreezing Assets

7.22. Where an individual or an entity is no longer subject to an asset freeze, Regulated Persons must implement appropriate policies, systems and controls to comply with unfreezing processes, as guided by the FRA.

Licensing

7.23. Any Regulated Person seeking a Licence to allow an act that would otherwise breach prohibitions imposed by Financial Sanctions or TFS, must apply to the

[22] With the exception of publicly traded companies where the responsibility for compliance with Financial Sanctions and TFS of the shareholders/owners lies with the securities intermediary, as required by a relevant competent authority.
[23] Pursuant to the TA.

Governor, with a copy to the FRA, using the Asset Freeze and Trust Services Prohibitions Licence Application Form or any other form prescribed by the FRA[24].

8. Enforcement

8.1. Whenever there has been a breach of a Rule, the Authority's policies and procedures as contained in its Enforcement Manual will apply in addition to any other powers provided in the Regulatory Acts and the MAA.

8.2. The Rule is issued pursuant to the Authority's statutory powers and shall have the force of law. In the event of any inconsistency or conflict between the Rule and any prior or existing guidance notes, policy statements, or interpretative materials issued by the Authority, the provisions of the Rule shall take precedence. In the event of any inconsistency or conflict between the Rule and the POCA, AMLRs, TA, PFPA or BOTA (together, the "Legislation"), the Legislation shall prevail to the extent of that inconsistency.

8.3. In any circumstance where the Authority determines that there has been a breach of a provision of the AMLRs, along with a breach of any corresponding rule, the Authority will exercise its discretion in imposing the relevant administrative fine in a manner that is consistent with the applicable acts, and procedures outlined in the Enforcement Manual – the Regulatory Handbook Volume 2, and with consideration to preclude duplication or avoid a double jeopardy scenario for the same breach.

9. Effective Date

9.1. This Rule will come into effect on **18 September 2026**, which is sixty (60) days after it was published in the Gazette.

[24] The form can be obtained from the FRA's website.

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