



Second Biennial Report

The Cayman Islands

November 27, 2014

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THE CAYMAN ISLANDS – SECOND BIENNIAL REPORT

I. Introduction

1. This report is the second biennial report by the Cayman Islands to the Caribbean Financial Action Task Force (CFATF) Plenary since it was removed from regular follow-up in November 2010. The third mutual evaluation report (MER) of the Cayman Islands was adopted on November 23, 2007. It was noted in the last follow-up report of October 2010 that the Cayman Islands had implemented measures resulting in a level of compliance equivalent to LC in Rec. 5, the only Recommendation among the sixteen key and core Recommendation that was rated PC in the third mutual evaluation report (MER) of the Cayman Islands. Additionally, only Recs. 30, SR. VIII and SR. IX still had outstanding recommended actions which resulted in a PC level of compliance. The following report by the Cayman Islands present actions which have been undertaken to address outstanding issues under Recs. 30, SR. VIII and SR. IX. Additionally, information on measures implemented in relation to other Recommendations is also provided

II. Report by the Cayman Islands of implemented measures

Recommendation 30 – rating PC

Recommendations

Cayman Islands Monetary Authority (CIMA) should review present staff complement with a view to improving supervisory coverage.

Actions Taken

2. Enhancing operational efficiencies has been a high priority for CIMA over the past 5 years. This particularly centered around automating certain processes to streamline supervisory practices and better align with CIMA's framework for risk based supervision. The Authority now has several online platforms that are utilized by regulated entities which include:

- *E-Reporting*: Portal for financial reporting by regulated Banks and Mutual Funds
- *CIMA Connect*: Portal used by Mutual Fund applicants
- *CIMA's Directors Gateway*: Portal used for applications from certain Directors

3. These electronic filing mechanisms reduce manual filing by registrants/licensee thus allowing more efficiency of the CIMA's manpower.

4. At the end of June 2014, CIMA's staff complement reached 170 persons. This compares with a staff complement of 116 in June of 2007 – the year of the Cayman Islands' Mutual Evaluation.

Recommendations

The financial and human resources of the Customs service be increased to enable the Customs service to carry out its duties and functions in an effective manner.

Actions Taken

5. Staffing at the Customs Department in June 2014 amounted to 151, compared to 103 in 2007 at the time of the mutual evaluation. This represents an increase of 48 (or 46.6 percent) over the period. The Enforcement section of the Department increased over the period from 22 in June of 2007 to 33 in June of 2014, with the positions of Image Operators being filled for the new scanning equipment that had recently been acquired. These scanners now allow Customs to be more effective in border security. The Budgetary allocations to the Customs Department increased from \$7.6 million at the time of the mutual evaluation to \$10.1 million in 2014/2015.

Special Recommendation VIII – rating PC

Recommendations

The authorities should undertake an outreach programme to the non-profit organizations (NPOs) sector with a view to protecting the sector from terrorist financing abuse.

A supervisory programme for NPOs should be developed to identify non-compliance and violations.

Systems and procedures should be established to allow information on NPOs to be publicly available.

Points of contacts or procedures to respond to international inquiries regarding terrorism related activity of NPOs should be put in place.

Actions Taken

6. The Charities Bill, 2010 was published and had a first reading in the Legislative Assembly. However, a subsequent decision was taken by the Government to withdraw the Bill in order to facilitate further public consultation due to continued general stakeholder concerns in relation to the possible adverse impact of the Bill on “goodwill” in the Islands.

7. The Attorney General’s Chambers has since had several meetings with stakeholders and accordingly, the Charities Bill, 2014 has been revised with a view to addressing the concerns raised while seeking to preserve its ultimate objective of acceptable and effective regulation of charities.

8. Stakeholders and the general public were invited to provide comments on, or alternatives to, the provisions of the revised draft legislation. That consultation period expired on 7th July, 2014. After the review of those comments government decided to further dialogue with the private sector to iron out areas of specific concern.

Special Recommendation IX – rating PC

Recommendations

It is the assessment team's recommendation that Cayman Islands Customs authorities should consider the implementation of new investigative techniques and methods similar to those outlined in the Best Practices Paper for SR IX, e.g. canine units specifically trained to detect currency.

Customs officials should also consider working more closely with the FRA and other law enforcement authorities to develop typologies, analyze trends and share information amongst themselves to more effectively combat cross border ML and FT issues

Actions Taken

9. In addition to the Customs Intelligence Unit, since 2011, a Senior Customs Officer (SCO) has been assigned to share information such as suspicious activities with the FRA and other law enforcement authorities. Additionally, the SCO is responsible for maintaining and reporting statistical data on cross border transportation of currency and monetary instruments.

10. At the beginning of 2012 (January), Customs installed a mobile container x-ray scanner and three (3) additional cargo scanners, which are now placed and operating at each cargo facility. In addition to detecting firearms and illegal narcotics, the scanners have the capability of detecting currency. The procurement of these scanners will enhance Customs investigative techniques at border crossings.

11. In mid-2013 (May), Customs went live with its new automated system "TRIPS" (Total Revenue Intergraded Processing System). Part of this system includes an Enforcement Module, which will provide intelligence, risk management and offence records etc. for Customs.

12. Eventually, TRIPS will offer an online declaration for traders, who will be able to submit their import entries electronically to Customs and at the same time receive their clearances. This initiative will reduce the need for having officers process declarations, allowing them to be deployed to the enforcement and border crossing sections.

13. To further accommodate the deployment of officers, Customs employed 7 administrative employees in April of this year, who are now being trained in processing declarations for the purpose of replacing officers.

14. Thus far, two officers have been deployed to the K-9 unit, which has increased the officer compliment from three to five and one officer has been deployed to the Intelligence Unit. Having five officers in the K-9 unit has seen an increase from five dogs to seven dogs. Furthermore, one dog is currently being trained to detect cash.

Other Recommendations

Recommendation 24 – rating LC

Recommendations

It is recommended that the authorities in the Cayman Islands implement a monitoring program to ensure that real estate agents, brokers, and lawyers when dealing with real estate transactions comply with AML/CFT measures

15. In preparation for its fourth round CFATF Mutual Evaluation the Cayman Islands will consider how best to implement a monitoring programme to ensure that the relevant DNFBPs comply with AML/CFT measures.

Recommendation 26 – rating LC

Recommendations

The FRA should also focus on the development of analytical products/reports in collaboration with its partners (e.g. law enforcement and CIMA) to identify new ML/FT trends and/or typologies. They should also continue to provide feedback to both financial and non-financial reporting entities concerning the submission of SARs and, they should actively seek out opportunities to participate in training seminars and media programs to educate both professionals and the public on AML/CFT matters.

Actions Taken

16. In addition to tactical disclosures made to Law Enforcement Agencies, the FRA's annual report has featured a Trend Analysis since 2006/07. Beginning in 2012-2013 the FRA has expanded its trend analysis to provide more information about ML/TF trends and/or typologies. The FRA continues to make efforts to obtain results from disclosures to the police and CIMA in order that proper feedback can be given to both financial and non-financial reporting entities.

Recommendations

An enhanced outreach program should also be considered by the FRA in order to educate businesses and the general public on various typologies, trends and other matters related to AML/CFT.

Actions Taken

17. The FRA has had numerous outreach programs with the business communities and other reporting entities. The FRA has made presentations in industry association organized events, as well as presentations to local financial service providers at their request, which are geared towards education on various typologies and trends related to AML/CFT matters.

Recommendations

Cayman Islands authorities should continue to monitor SAR reporting closely to ensure that the level of vigilance of the reporting entities is not waning and that complacency is not setting in.

Actions Taken

18. The FRA continues to monitor SAR reporting to the extent that it now reviews SAR filing by sector (i.e., according to the license they hold or service they provide for DNFBPs). In terms of the total number of SARs filed, in 2011/12, the number of SAR filings increased by 15.0% but

in 2012/13 SAR filings decreased by 3.4%. In 2013/14 the SAR filings which includes requests from overseas FIUs' increased by 42.3% to 558 reports.

Recommendation 35 and Special Recommendation I – rating LC

Recommendations

Due extension of conventions are required

Actions Taken

19. The UK's ratification of the UN Convention against Transnational Organized Crime (the "Palermo Convention") was extended to the Cayman Islands on May 17, 2012.

20. The Cayman Islands continues to call for an extension of the UK's ratification of the International Convention for the Suppression of Financing of Terrorism, which was extended to the British Virgin Islands in 2012. Although its request remains outstanding, the provisions of the Convention continue to be implemented in various provisions of the Proceeds of Crime Law and Terrorism Law.

Annex 1. Cayman Islands Implementation Statistics

Financial Year Ending June	Banking	Fiduciary	Investments	Insurance	Total
2011/2012	38	15	13	41	107
2012/2013	38	30	24	52	144
2013/2014	43	48	27	32	150
Total	119	93	64	125	401

Table 1: Number of on-site inspections (including AML/CFT component) conducted by CIMA, by division for financial years 2011/2012 to 2013/2014.

In July 2012 CIMA launched its investigation into whether the Cayman Islands branch of HSBC Mexico S. A. breached the Money Laundering Regulations (2010 Revision) or the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands March 2010. In February 2013, the license was revoked on the grounds that CIMA was of the opinion that the Cayman Islands Branch was carrying on business in a manner detrimental to the public interest, the interest of its

depositors or of the beneficiaries of any trust or other creditors, and that the direction and management of its business had not been conducted in a fit and proper manner.

Table 2: Breakdown of Suspicious Activity Reports submitted to the Financial

Type of Financial Institution/DNFBP	Received	No Further Action	Disseminated	In Progress
Banks	204	57	63	84
Trust Company	54	19	9	26
Company Manager/Corporate Service Provider	26	9	5	12
Mutual Fund Administrator	31	8	4	19
Attorneys	30	1	11	18
Money Transmitters	52	12	35	5
Securities Broker/Dealer	57	20	2	35
Insurance Manager	12	2	-	10
Realtors	6	1	2	3
Auditors	5	1	2	2
Investment Advisor	3	1	1	1

Reporting Authority for 2013/2014

and Manager				
CIMA	3	-	2	1
Others	6	-	2	4
TOTAL	489	131	138	220

Table 3: Breakdown of Suspicious Activity Reports submitted to the Financial Reporting Authority for 2012/2013

Type of Financial Institution/DNFBP	Received	No Further Action	Disseminated	In Progress
Banks	149	70	59	20
Trust Company	42	26	10	6
Company Manager/Corporate Service Provider	28	10	12	6
Mutual Fund Administrator	24	10	10	4
Attorneys	12	4	7	1
Money Transmitters	20	4	16	-
Securities Broker/Dealer	11	5	5	1
Insurance Manager	5	1	4	-
Realtors	3	-	2	1
Auditors	-	-	-	-
Investment Advisor and Manager	2	2	-	-
CIMA	5	-	1	4
Others	29	5	20	4
TOTAL	330	137	146	47

Table 4: Breakdown of Suspicious Activity Reports submitted to the Financial Reporting Authority for 2011/2012

Type of Financial Institution/DNFBP	Received	No Further Action	Disseminated	In Progress
Banks	146	73	69	4
Trust Company	50	37	11	2
Company Manager/Corporate Service Provider	38	19	17	2
Mutual Fund	27	13	11	3

Administrator				
Attorneys	16	7	8	1
Money Transmitters	15	5	10	-
Securities Broker/Dealer	11	7	3	1
Insurance Manager	5	3	2	-
Realtors	4	2	2	1
Auditors	4	1	3	-
Investment Advisor and Manager	2	-	2	-
CIMA	2	-	2	-
Others	5	2	1	2
TOTAL	325	169	140	16

Table 5: Disclosures to and requests for information from foreign FIUs from 2011/2012 to 2013/2014

	2011-2012	2012/2013	2013/2014
Onward Disclosure			
Received	4	3	3
No Further Action	3	-	-
Disseminated	1	3	3
In Progress	-		
Request for Information			
Received	77	59	66
No Further Action	-	-	-
Disseminated	77	57	47
In Progress	-	2	19

Table 6: Requests for information made to complete analysis of Suspicious Activity Reports for 2013/2014

Type of Financial Institution/DNFBP	Received	Local	Overseas
Banks	204	21	10
Trust Company	54	9	1
Company Manager/Corporate Service Provider	26	1	-
Mutual Fund Administrator	31	1	-

Attorneys	30	2	-
Money Transmitters	52	9	1
Securities Broker/Dealer	57	1	5
Insurance Manager	12	2	-
Realtors	6	1	-
Auditors	5	-	-
Investment Advisor and Manager	3	-	-
CIMA	3	-	-
Others	6	-	-
TOTAL	489	47	17

Table 7: Requests for information made to complete analysis of Suspicious Activity Reports for 2012/2013

Type of Financial Institution/DNFBP	Received	Local	Overseas
Banks	149	20	14
Trust Company	42	4	4
Company Manager/Corporate Service Provider	28	8	4
Mutual Fund Administrator	24	1	3
Attorneys	12	1	1
Money Transmitters	20	1	-
Securities Broker/Dealer	11	1	7
Insurance Manager	5	2	-
Realtors	3	2	1
Auditors	-	-	-
Investment Advisor and Manager	2	-	5
CIMA	5	-	1
Others	29	2	2
TOTAL	330	42	42

Table 8: Requests for information made to complete analysis of Suspicious Activity Reports for 2011/2012

Type of Financial Institution/DNFBP	Received	Local	Overseas
Banks	146	24	11
Trust Company	50	13	11
Company Manager/Corporate	38	10	3

Service Provider			
Mutual Fund Administrator	27	1	4
Attorneys	16	2	1
Money Transmitters	15	-	-
Securities Broker/Dealer	11	1	5
Insurance Manager	5	-	-
Realtors	4	-	-
Auditors	4	2	-
Investment Advisor and Manager	2	-	-
CIMA	2	-	-
Others	5	2	4
TOTAL	325	55	39

There have been 3 outgoing requests for extradition over the past two years and one incoming request. Over the last three years, there have been 50 mutual legal assistance requests processed, 15 of which were related to money laundering (See Table 9 below). Money laundering related enforcement actions over the past three years resulted in restraints amounting to US\$ 13.3 million and confiscations amounting to \$102,000.

Table 9: ML Enforcement Actions for period 2012 to 2014

	2012	2013	2014
ML Investigations	16	25	13
ML Prosecutions	4	1	1
Convictions	3	1	1
Restraints	US\$2,300,000	US\$2,493,518.95	US\$8,500,000
Confiscations	US\$24,000	US\$8,000	US\$70,000
MLAT Requests	8	3	4

Table 10: Breakdown of Mutual Legal Assistance Requests relating to ML for 2012

Predicate Offences	Outcome	Time Period for Response
Illegal transfer of funds	Unable to assist due to	46 days

abroad	lack of dual criminality.	
Conspiracy to defraud	All material provided except valuation. (Requesting state declined to pay cost of valuation.)	30 days
Fraud	Ongoing	
None specified	Further particulars were requested from the requesting state on November 7, 2012. No response was received. File closed on November 11, 2013	12 days
Organized Swindle (Fraud)	The requesting state was informed that the requested information was not available in the Cayman Islands.	39 days
Tax Offences/Fraud/Handling Stolen	Request sent to requesting state for further particulars and information as to whether this was only a tax matter (21.1.13). Response received but still no full particulars. Further request sent 9-7-14, awaiting response.	
Extortion, bribery, theft, foreign official corruption.	Request for records granted.	407 days

Table 11: Breakdown of Mutual Legal Assistance Requests relating to ML for 2013

Predicate Offences	Outcome	Time Period for Response
Fraud	On going	
Drug Trafficking	File closed. The information requested was supplied on a police-to-police basis.	489 days
None Specified	Letter sent to requesting state 30th August 2013 requesting further information. No	

	response received.	
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