



# Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

AML/CFT ACTIVITYREPORT2020 Table of Contents Introduction AML/CFT Supervisory Function Risk-Based Approach to AML/CFT Supervision Deficiencies and Requirements Enforcement Actions AML/TF/PF Risk Assessments & Ratings New ML/TF Descriptors Virtual Asset Service Providers Supervision Outreach Activities Future Objectives & Outlook

CMRAI 2020 AML/CFT Activity Report 1 Introduction AML/CFT Supervisory Function Financial service providers ( FSPs ) and trust and company service providers ( TCSPs ) are an essential part of the Cayman Islands economy. They enhance the status of the jurisdiction as an international financial centre and are recognised globally. This privileged position, however, brings responsibility. FSPs and TCSPs must play a central role in the fight against money laundering ( ML ) and terrorist financing ( TF ) to help safeguard against flows of illicit finance. As part of its overall mandate under the Monetary Authority Act, the Cayman Monetary Regulatory Authority International ( CMRAI ) is responsible for the regulation and supervision of FSPs and TCSPs, and for monitoring, supervising and enforcing compliance under the Anti-Money Laundering Regulations (the AMLRs ). This inaugural annual report sets out CMRAI s anti-money laundering ( AML ) and combating the financing of terrorism( CFT ) activities during 2020. Despite the challenges posed by COVID-19 during 2020, CMRAI delivered its comprehensive AML/CFT supervision plan while maintaining regular contact with licensees, registered persons and industry associations. In 2020, CMRAI: Conducted 180 AML/CFT on-site inspections of regulated entities Issued 1,262 requirements, of which 1,047 were matters requiring immediate attention Issued letters of no findings for 10% of inspections Issued two administrative fine penalties and took 1,388 further enforcement actions It is expected that all regulated entities take note of this report and act to ensure that their own AML/CFT compliance framework meets with the standards prescribed by the AMLRs and the AML Guidance Notes, and all other applicable legislation. CMRAI s AML/CFT supervisory activities are carried out through its divisional infrastructure, which includes both regulatory and non-regulatory divisions. The Anti-Money Laundering Division ( AMLD ) was established in March 2019 as a specialist supervisory division dedicated to the monitoring and supervision of entities under its remit for compliance with AML/ CFT requirements. The AMLD is ultimately responsible for fulfilling CMRAI s AML/CFT mandate.

CMRAI 2020 AML/CFT Activity Report 2 Sector Licensees/Registrants Banking & Trusts 146 Money Services Businesses 5 Trust & Corporate Services Providers 475 Insurance Licensees 771 Mutual Funds 11,896 Private Funds 12,695 Mutual Fund Administrators 76 Securities Licensees and Registered Persons 1,685 Total 27,749 Supervision for Registered Persons The Excluded Persons regime under the Securities Investment Business Act ( SIBA EPs ) was abolished on 15 January 2020. Entities that previously qualified as SIBA EPs had to re-register with CMRAI as Registered Persons. CMRAI has published the names of entities that did not re-register. CMRAI now conducts comprehensive AML/CFT and counter proliferation financing ( CPF ) supervision of 1614 Registered Persons as of 31 December 2020, including undertaking fitness and propriety checks, conducting on-site inspections and taking enforcement action where required.

In 2020, CMRAI completed risk-based inspections for 39 Registered Persons to evaluate their AML/ CFT policies, procedures, systems, and controls. The preliminary results from the inspections were published in December 2020 in a supervisory circular to help Registered Persons better understand CMRAI s expectations and raise AML/CFT compliance standards across the whole sector. CMRAI takes a risk-based approach in determining the frequency and intensity of on-site and off-site AML/ CFT supervision. This takes into account the inherent ML/TF risks identified through the National Risk Assessments as well as sectoral risk assessments

conducted by CMRAI and the characteristics of all entities within CMRAI's remit, such as the number and diversity of these entities and the degree of supervisory discretion afforded to them under the risk-based approach. Risk-Based Approach to AML/CFT Supervision Table 1: Number of licensees and registrants under CMRAI's supervision, 2020 CMRAI 2020 AML/CFT Activity Report 3 During 2020, a total of 180 AML/CFT specific on-site inspections were conducted compared to 175 in 2019. See Table 2. Sector Inspections Banking 22 Trust & Corporate Services Providers 50 Insurance 25 Mutual Fund Administrators 20 Securities Investment Business Registered Persons and Licensees 63 Total 180 CMRAI identified a number of deficiencies through on-site inspections in 2020. Table 3 below shows the percentage of regulated entities (subject to on-site inspection) per type of AML/CFT deficiency along with the associated number of requirements issued. An AML deficiency can be minor, serious or very serious. Deficiencies and Requirements Category % of Inspected Regulated Entities per Type of Deficiency Number of Requirements per Type of Deficiency Issued

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

Table 2: Number of AML/CFT on-site inspections conducted, 2020 Table 3: Deficiencies of inspected regulated entities and requirements issued CMRAI 2020 AML/CFT Activity Report 4 The most common deficiencies identified through on-site inspections were around client identification and verification documentation/customer due diligence (CDD), ongoing monitoring, policies and procedures, risk-based approach and sanctions. Customer Due Diligence CMRAI identified deficiencies around CDD for 55% of regulated entities subject to on-site inspection. These related to: Incomplete or inappropriate independent CDD: identification verification, address verification, source of funds, corporate records, and authorised signatories Expired CDD and illegible photo identification documents Improper, or lack of, certification of CDD in accordance AMLRs/Guidance Notes and/or with the regulated entity's policies and procedures Incomplete client profiles relating to documenting the nature and purpose of business, account turnover, reference letters, and non-face to face procedures Incomplete politically exposed person (PEP) due diligence documents: source of wealth, senior manager sign-off, enhanced ongoing monitoring Ongoing Monitoring CMRAI identified deficiencies around ongoing monitoring for 39% of regulated entities subject to on-site inspection. These related to: Lack of documentation of the periodic customer file reviews conducted Lack of documentation to evidence the transactional monitoring procedures performed Policies and Procedures CMRAI identified deficiencies around policies and procedures for 38% of regulated entities subject to on-site inspection. These related to: Lack of documentation of a risk-based approach Inadequately developed ongoing monitoring procedures AML/CFT policies that did not sufficiently address the certification of client identification documents Inadequate enhanced due diligence procedures for higher risk clients: high risk jurisdictions, PEPs and Relatives and Close Associates (RCAs), suspicious activity Insufficiently addressed targeted sanctions requirements of the Cayman Islands: failing to refer to appropriate lists, inadequate screening procedures to update lists, alert processing, asset freezing, reporting procedures Inadequate gap analysis to identify and address gaps between the regulated entity's group-wide AML/CFT policies and procedures and the applicable regulatory requirements of the Cayman Islands Non-compliance with regulatory requirements to perform periodic internal AML/CFT audits CMRAI 2020 AML/CFT Activity Report 5 Risk-Based Approach

CMRAI identified deficiencies around the risk-based approach for 38% of regulated entities subject to on-site inspection. These related to: Inappropriate application of the risk-based approach to the size, nature and complexity of the business operations of the regulated entity and its client relationships; Inappropriate client risk rating tools or the client risk ratings undocumented; Outdated or not completed client risk ratings for client population; Inadequate/incomplete customer and counter party risk assessment methodology; documenting all risk factors and parameters: PEPs, suspicious activity, geographic risk; Sanctions. CMRAI identified deficiencies around targeted financial sanctions programmes for 36% of regulated entities subject to on-site inspection. These related to: Inadequate evidence of screening all clients and counter parties; Inability to demonstrate timely screening of clients and counter parties as sanctions lists are updated; Insufficient resources applied to ensure immediate and effective screening; Insufficient management of data: alerts log, evidence of screening, logic for clearing alerts.

Enforcement Actions CMRAI is both a prudential and AML/CFT regulator, and therefore its powers to impose sanctions through enforcement actions for breaches of AML/CFT (other than administrative fines) are carried out through the operation of its regulatory acts. These acts state that where a licensee/registrant has contravened such legislation, CMRAI may take any of the listed enforcement actions. Administrative fines are a newly deployed element of CMRAI's enforcement toolkit. The first official fine imposed against a Category A Bank was in October 2020 in the amount of CI\$100,000. In December 2020, CMRAI imposed its second fine of CI\$482,717.50 against a trust company. CMRAI imposes requirements for non-compliance and actively monitors the regulated entities that are identified as having deficiencies. CMRAI also uses this data as part of its risk-based approach, considering the inherent risks of the sector, and applying resources to supervision accordingly. CMRAI also issues guidance through supervisory circulars to encourage compliance by regulated entities.

CMRAI 2020 AML/CFT Activity Report 6 Table 4: Breakdown of enforcement actions by CMRAI, 2020

Enforcement Action	Banking	Fiduciary	Insurance	Investments	Securities	Total
Revocations/ Cancellations	205	80	15			205
Appointment of Controllers	001	001				002
Winding Up Petitions	001	001				002
Cease and Desist/ Requirements /Conditions	000	101				101
Actions Under the DRLA	000	000				000
Warning Notices	2041,045	324				1,375
Admin Fines	Breach	Notices				01100
	2	Admin				Fines
	11000	2				Total
	52121,054	324				1,397
Enforcement Actions with AML/CFT Component	32130	9				Directors Found Not Fit and Proper
	102	306				

CMRAI 2020 AML/CFT Activity Report 7 Focus on Beneficial Ownership CMRAI conducted a Focused Thematic Review of selected TCSPs to assess their AML/CFT systems and controls. By obtaining and maintaining adequate, relevant and up to date information, TCSPs will have greater visibility of the controllers and beneficial owners of the businesses they are serving, and a better understanding of their business relationships.

Specifically, CMRAI considered compliance with Regulation 12 of AMLRs, which relates to customer due diligence, identification of beneficial owners, purpose and intended nature of the business relationship, and source of funds. The Thematic Review identified weaknesses in relation to business relationships, specifically: Missing or inadequate CDD information and documents: 38% of files reviewed; Source of funds/source of wealth: 58% of files reviewed; Purpose and intended nature of business: 49% of files reviewed; Ongoing Monitoring: 58% of files reviewed. In addition to sharing the results of the Thematic Review with regulated entities, CMRAI engaged with fellow supervisors via the Supervisors' Forum. Working closely with the Registrar of Companies, beneficial ownership compliance continues to be a priority for CMRAI.

AML/TF/PF Risk Assessments & Ratings In 2020, CMRAI published details of

sectoral risk assessments of ML and TF risks in the various regulated financial sectors/sub-sectors under its remit. CMRAI devised a list of inherent risk indicators for each sector/sub-sector and surveyed its licensees and registrants to obtain data that would enable it to assess those risks before the application of any controls, mitigants or oversight. Each sector was rated on a scale of Low, Medium-Low, Medium-High, and High against the five inherent risk areas recommended in the Financial Action Task Force ( FATF ) 40 Recommendations, namely: i. Nature, size, and complexity of business ii. Transactions, products and services iii. Delivery channels iv. Customer types v. Geographic risks

CMRAI 2020 AML/CFT Activity Report 8 Banking Category A Banking Category B MSB Trust Service Providers Corporate Service Providers Insurance Mutual Fund Administrators Securities Licensees SIBL EPS Nature, size, complexity LMHMHMHMHLMHMHH Transactions, products and services MLMHHHMLMHHMH Delivery channels MLMLMLMHMLMHHMHMH Customer types MLHMHMHLMLMLMHMH Geographic risks MLMLLMHML Overall Risk MLMHMHMHMLMHHMHMH New ML/TF Descriptors

CMRAI introduced quarterly cash flow reporting by banks to better understand the TF risks associated with cross border threats and collected cash flow information for 2018 and 2019. These returns are being used to monitor payments to high-risk countries, including sudden shifts in the origin and destination of funds. The implementation of this reporting has strengthened CMRAI's understanding of the jurisdiction's cross-border activities and how this contributes to the overall ML and TF risk. Under the risk-based approach, CMRAI applies resources to the review and testing of wire transfers or cross border payments to and from high-risk jurisdictions to determine whether banks are applying sufficient and appropriate CDD procedures, including enhanced due diligence procedures on such payments deemed high-risk or carried out by high-risk customers and whether any ad hoc/surprise inspections are needed.

Virtual Asset Service Providers Supervision The Virtual Asset Service Providers ( VASP ) Act was passed in May 2020 to regulate virtual asset activities taking place in or from the jurisdiction. CMRAI has been appointed the supervisory authority for VASPs. The VASP Act also provides for different categories of authorisation depending on the risk of the type of activity that will be conducted.

Table 5: Ratings assigned on each risk factor assessed

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

CMRAI 2020 AML/CFT Activity Report 9 The VASP Act is being implemented in two phases. Phase one came into force on 31 October 2020 and focused on the implementation of the AML/ CFT compliance, supervision and enforcement, and other key areas of risk. All entities engaged in or that intend to engage, in virtual asset services were required to file applications for Registration with CMRAI by 31 January 2021. CMRAI will assess the applicant's AML/CFT/CPF systems and controls, inherent risks, open-source information, and closed source intelligence. Phase two will bring into effect the outstanding sections of the VASP Act, and Regulation is scheduled to commence in 2022. This includes the licensing regimes for virtual asset issuers, exchanges, fintech and sandbox. The Cayman Islands is currently developing the licensing framework, policy and supervisory framework for each. Cayman Islands registered VASP are required to comply with the AML/CFT/CPF and Sanctions obligations outlined in the AMLRs. CMRAI has also published guidance notes setting out its AML/ CFT regulatory expectations for VASPs, along with other relevant communications. The AMLRs apply to VASPs, including (but not limited to): conducting CDD,

having systems and controls in place when relying on third parties for CDD, collecting and verifying customer identity, sanctions screening, record keeping requirements, identification of PEPs and other high risk clients, and the application of enhanced measures to manage the risk posed by those entities. Outreach Activities CMRAI continued its commitment to raise AML/CFT compliance awareness and standards throughout outreach activities. Due to social distancing measures arising from COVID-19, outreach activities were conducted virtually. CMRAI presented on topics including: Risk-based approach Risk assessments AML/CFT risk and red flag indicators Enhanced and simplified due diligence The role of the ML Reporting Officer and AML Compliance Officer Outsourcing VASP supervisory framework Ongoing monitoring Guidance note revisions Proliferation financing CMRAI 2020 AML/CFT Activity Report 10 Presentations were either conducted by CMRAI, in collaboration with other Cayman Islands Government agencies or at industry-led virtual conferences and outreach sessions. CMRAI further published outreach videos and audio slides on its website for: TF Risk Assessment, Guidance Notes on the Risk-Based Approach, Guidance Notes amendments on Risk-Based Approach, Ongoing Monitoring, and Targeted Financial Sanctions, Proliferation Financing, Virtual Assets as well as the SIBA EP Risk Assessment, SIBA Licensee Risk Assessment, Mutual Fund Administration Risk Assessment, Banking Risk Assessment, Money Service Businesses Risk Assessment, TCSP Risk Assessment and the Insurance Risk Assessment. This initiative has been particularly successful, with over 13,000 hits to the webpage. CMRAI also published a number of advisories, notices, circulars and newsletters. The chart below shows the different types of outreach. Videos Newsletters In-person sessions Notices Virtual sessions Supervisory circulars 25% 36% 5% 17% 11% 6%

To further promote awareness and compliance with Targeted Financial Sanctions ( TFS ) obligations, CMRAI commenced the automatic dissemination of notices to registrants/ licensees of persons or entities designated under international financial sanctions regime, based on the consolidated list maintained by the Office of Financial Sanctions Implementation in the United Kingdom. The notices provide information on what the recipient must do in the case of an addition, amendment or removal of a person/entity to/from the consolidated list. They are disseminated to over 17,000 addresses of regulated entities/persons and form a continued part of CMRAI's outreach efforts to promote compliance with TFS obligations. Regulated entities may also now self-update contact details through the Regulatory Enhanced Electronic Forms Submission portal. CMRAI 2020 AML/CFT Activity Report 11 Future Objectives & Outlook Looking ahead, CMRAI will continue its vigorous oversight of AML/CFT obligations to promote and safeguard the integrity of the Cayman Islands financial services industry. CMRAI shall work in collaboration with government and industry stakeholders to continue to demonstrate the robustness of the Cayman Islands AML/CFT framework. CMRAI will also continue to collect data around its AML/CFT supervision to assess outcomes and performance.

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