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## MESSAGE FROM THE DIRECTOR

I am pleased to report on the operations of the Financial Reporting Authority (“FRA”) in this annual report for the 2016/17 financial year (“Financial Year”), which marks the fourteenth reporting period for the FRA.

The FRA received 601 suspicious activity reports (“SARs”) during the Financial Year, the second consecutive financial year that the number of SARs exceeded 600 (2015/16: 620).

SARs were received from 148 different reporting entities, not including the 27 overseas Financial Intelligence Units (“FIUs”) that voluntarily disclosed information to, or requested information from, the FRA.

The FRA completed the analysis on 206 of the 601 new cases received during the Financial Year, leaving 395 in progress at year-end. Of the 206 new cases that were completed, 107 resulted in a disclosure<sup>1</sup>, 57 were deemed to require no further immediate action, 36 were replies to requests from FIUs and 6 were replies to requests from local law enforcement agencies. We also completed the analysis on 83 of 316 cases carried over from 2015/2016,

39 of 134 cases carried over from 2014/2015 and 4 of 12 cases carried over from 2013/2014, a total of 126 cases. Of the 126 previous cases that were completed, 66 were deemed to require no further immediate action, 47 resulted in a disclosure<sup>2</sup> and 13 were replies to requests from FIUs.

I wish to commend industry practitioners for their continued vigilance in the fight against the jurisdiction being used for money laundering, terrorist financing, proliferation financing and other financial crime, and maintaining the reputation of the Cayman Islands as a leading international financial centre.

FRA staff spent significant time during the Financial Year preparing for and meeting obligations regarding the 4<sup>th</sup> Round Mutual Evaluation by the Caribbean Financial Action Task Force (“CFATF”). The key activities included: assuming responsibility for implementing targeted financial sanctions related to terrorism, terrorist financing and proliferation financing, and monitoring compliance with regulations prescribing anti-terrorism financing and anti-proliferation financing measures; reviewing and proposing changes to relevant legislation; preparing responses for the assigned Financial Action Task Force (“FATF”) Recommendations for

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<sup>1</sup> Total number of disclosures to local law enforcement agencies, the Cayman Islands Monetary Authority and overseas financial intelligence units.

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<sup>2</sup> As above.

the Technical Compliance Questionnaire and Immediate Outcomes; and drafting and updating relevant procedure manuals. The FRA remains committed to the ongoing preparations for the CFATF Onsite Visit scheduled for December 4<sup>th</sup> – 15<sup>th</sup> 2017 and the post-onsite activities.

The Financial Year was particularly challenging, given the assumption of new responsibilities, and being 'short-staffed' on the analysis side for several months as a result of the resignation of one of our most experienced staff members, Senior Financial Analyst Julian Hurlston. I would like to thank Julian for his almost 13 years of service and the significant contributions he made to the development of the FRA.

In closing, I would like to recognize and express appreciation to my staff for their continued commitment to the success of the FRA and the passion that they bring to the workplace.

**RJ Berry**  
**Director**

## I. LEGAL FRAMEWORK

The Cayman Islands fully understands and accepts that operating a financial services centre involves serious obligations. The Cayman Islands Government enforces a strong anti-money laundering (AML) and countering the financing of terrorism (CFT) regime through the following pieces of legislation:

### 1. The Proceeds of Crime Law (2017 Revision) ("PCL")

The PCL was introduced in 2008 and consolidated in one place the major anti-money laundering provisions, which were previously in three separate pieces of legislation. The PCL re-defined, clarified and simplified offences relating to money laundering and the obligation to make reports of suspicious activity to the FRA. It also introduced the concept of negligence to the duty of disclosure, and imposed a duty to report if the person receiving information knows, suspects, or has reasonable grounds for knowing or suspecting, that another person is engaged in criminal conduct, and such information came to him in the course of business in the regulated sector, or other trade, profession, business or employment.

It also governs the operations of the FRA.

In addition the Law widened the definition of criminal conduct, which is now defined as any offence committed in the Cayman Islands or

any action that would have constituted an offence if committed in the Cayman Islands. As the definition was previously limited to indictable offences, the change simplified the task of assessing whether a particular set of facts falls within the PCL, and further satisfies the 'dual criminality' provisions, which mandate that the FRA may only respond to a request for information from another FIU if the offence being investigated in the overseas jurisdiction is also a crime in the Cayman Islands.

### 2. Misuse of Drugs Law (2017 Revision) ("MDL")

The MDL has over the years been amended to give effect to the Cayman Islands' international obligations, and particularly to the United Nations ("UN") Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The MDL contains measures to deal with drug trafficking and the laundering of the proceeds from such activity. The law empowers the authorities to seize and confiscate drug trafficking money, and laundered property and assets. The Criminal Justice (International Cooperation) Law (2015 Revision) – originally enacted as the Misuse of Drugs (International Cooperation) Law - provides for cooperation with other countries in relation to collecting evidence, serving documents and immobilising criminally obtained assets in relation to all qualifying criminal proceedings and investigations.

### **3. Terrorism Law (2017 Revision) ("TL")**

The Terrorism Law is a comprehensive piece of anti-terrorism legislation that, inter alia, implements the UN Convention on the Suppression of Financing of Terrorism.

The Cayman Islands Government is currently proposing additional amendments to the TL, as detailed in the Terrorism (Amendment) Bill, 2017, to bring it in line with the relevant international FATF standards.

### **4. Anti-Corruption Law (2016 Revision) ("ACL")**

Brought into effect on 1 January 2010, the ACL initiated the establishment of the Anti-Corruption Commission ("ACC") and also criminalised acts of corruption, bribery and embezzlement of funds.

The ACL seeks to give effect to the UN Convention against Corruption and the Organisation for Economic Cooperation and Development ("OECD") Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. International cooperation and asset recovery are important components of this legislation including measures to prevent and detect transfers of illegally acquired assets, the recovery of property and return of assets.

In June 2016 the ACL was amended, empowering the ACC to operate as a separate law enforcement agency.

### **5. Proliferation Financing (Prohibition) Law (2017 Revision) ("PFPL")**

The Proliferation Financing (Prohibition) Law 2010 conferred powers on the Cayman Islands Monetary Authority ("CIMA") to take action against persons and activities that may be related to terrorist financing, money laundering or the development of weapons of mass destruction. The legislation required CIMA to issue directions, where it reasonably believed that certain activities in these areas were being carried on that posed a significant risk to the interests of the Islands or the United Kingdom (U.K.).

The 2017 Revision brings the PFPL in line with the relevant FATF requirements, particularly with regard to "freezing without delay" and reporting obligations of persons in relation to any United Nation Security Council Resolutions related to proliferation financing. The FRA has also assumed responsibilities for implementing targeted financial sanctions in relation to proliferation financing.

### **6. Money Laundering Regulations (2015 Revision) ("MLRs")**

The Regulations supplement the PCL and are mandatory. The PCL defined "relevant financial business" and requires those engaged in "relevant financial business" activities, referred to as financial service providers ("FSPs") and professional intermediaries, to comply with specific administrative requirements aimed at



preventing or detecting money laundering. Among these administrative requirements is the appointment of compliance officers at management level.

The MLRs will be repealed by the Anti-Money Laundering Regulations, 2017 (“AMLRs”), which will come into force on 2 October 2017. The AMLRs are being introduced to modernize the jurisdiction’s AML/CFT practices and make them consistent with the FATF 40 Recommendations, including but not limited to, specific emphasis on assessing and applying a risk-based approach, establishing specific requirements to identify beneficial owners for legal persons and legal arrangements and for the risk based approach to be used in conducting customer due diligence, and incorporation of some provisions previously set out in the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands.

## II. THE FINANCIAL REPORTING AUTHORITY

### 1. BACKGROUND

The FRA, known to counterparts worldwide by its computer call sign “CAYFIN”, is the financial intelligence unit of the Cayman Islands. As such it is the national agency responsible for receiving, requesting, analysing and disseminating financial information disclosures concerning proceeds of criminal conduct, in order to counter money laundering, terrorism, the financing of terrorism or suspicions of any of those crimes.

The FRA has evolved over the years. It began as the Financial Investigation Unit in the early 1980s, operating within police headquarters. In 2000 it underwent a name change to become the Financial Reporting Unit, with the head of unit becoming a civilian post and there being an appointed legal advisor. Line management for operational work was undertaken by the office of the Attorney General. Throughout this period, the role of the unit was to receive, analyse and investigate SARs, in addition to gathering evidence to support prosecutions.

While this remains the FIU model in some countries, the Cayman Islands, along with other jurisdictions, quickly discovered that there were advantages to be gained from separating the functions of intelligence and evidence gathering. Briefly these are:

- A healthy review of the work undertaken by each subsequent

player in the process from SAR to courtroom; and,

- As the majority of SARs are based upon “suspicion”, not every piece of confidential financial information should automatically end up in a police database.

Both benefits are instrumental in the due process of justice, and the latter is an important consideration in the FIU serving as a helpful ‘buffer’ type body between the confidential needs of a vigorous, competitive financial industry and combating crime by law enforcement.

Striking a balance between the various styles of FIUs, the Cayman Islands moved toward an administrative-type unit. Subsequently the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL) created the Financial Reporting Authority, the name by which the unit is presently known. The law, which came into force on 12<sup>th</sup> January 2004, mandated that the FRA become a full-fledged civilian body, and that its function change from being an investigative to an analytical type FIU. Accordingly its mandate was restricted to the receipt and analysis of financial information coupled with the ability to disseminate this intelligence to agencies, where authorised to do so by the PCCL. Its existence and independence were further enshrined in the PCL, which repealed and replaced the PCCL and came into force on 30<sup>th</sup> September 2008. The investigative mandate continues to be undertaken exclusively by the Royal Cayman Islands Police Service (“RCIPS”) in relation to

cases with local concerns.

## **2. Role and Function**

The FRA's main objective is to serve the Cayman Islands by participating in the international effort to deter and counter money laundering and the financing of terrorism.

As noted above, a primary role of the FRA is to receive, analyse, (and as far as permitted request) and disseminate disclosures of financial information, concerning the proceeds of criminal conduct, suspected proceeds of criminal conduct, money laundering, suspected money laundering, or the financing of terrorism which is derived from any criminal offence committed in these islands.

The FRA also serves as the contact point for international exchanges of financial intelligence within the provisions of the PCL.

Financial intelligence is the end product of analysing one or several related reports that the FRA is mandated to receive from financial services providers and other reporting entities. Our ability to link seemingly unrelated transactions allows us to make unique intelligence contributions to the investigation of money laundering and terrorist financing activities.

A key priority for the FRA is to provide timely and high quality financial intelligence to local and overseas law enforcement agencies through their local FIU, in keeping with the statutory requirements of the PCL.

During the Financial Year the FRA also assumed responsibility for ensuring the implementation of targeted financial sanctions with respect to terrorism, terrorism financing, proliferation, proliferation financing, and other restrictive measures related to anti-money laundering (AML) and combatting the financing of terrorism (CFT) and proliferation (CFP) from and within the Cayman Islands.

The post of a Sanctions Coordinator within the FRA was created and filled during the Financial Year. The post holder plays a critical role in the implementation and enforcement of these targeted financial sanctions and other restrictive measures, and in developing and enhancing the jurisdiction's AML/CFT regime, while ensuring ongoing compliance with international standards and best practices.

## **3. Organisational Structure and Management**

The FRA is a part of the Cayman Islands Government's Portfolio of Legal Affairs. The head of this portfolio is the Hon. Attorney General. In addition the FRA reports to the Anti-Money Laundering Steering Group ("AMLSG"), a body created by the same statute as the FRA. The Proceeds of Crime (Amendment) Law 2016 changed the makeup of the AMLSG; it is still chaired by the Hon. Attorney General and the membership is comprised of the Chief Officer in the Ministry responsible for Financial Services or the Chief Officer's designate (Deputy Chairman), the Commissioner of Police, the Collector of

Customs, the Managing Director of CIMA, the Solicitor General, the Director of Public Prosecutions and the Chief Officer or Director, as the case may be, of the department in Government charged with responsibility for monitoring compliance with anti-money laundering and counter terrorism measures for Designated Non-Financial Businesses and Professions (“DNFBPs”). The Director of the Financial Reporting Authority is invited to attend meetings, as is the Head of the Anti-Money Laundering Unit, who also serves as secretary.

The AMLSG has responsibility for oversight of the anti-money laundering policy of the Government and determines the general administration of the business of the FRA. It also reviews the annual reports submitted by the Director, promotes effective collaboration between regulators and law enforcement agencies and monitors the FRA’s interaction and cooperation with overseas FIUs.

The FRA believes that a healthy and well managed organisation sustains performance. In particular, it maintains strong focus on the effective management of human, financial and technical resources.

The FRA staff consists of a Director, Legal Advisor, Sanctions Coordinator, Senior Accountant, two Senior Financial Analysts, a Financial Analyst and an Administrative Manager, all having suitable qualifications and experience necessary to perform their work.

Ms. Kim France joined the FRA as Sanctions Coordinator on 1 February 2017. Prior to joining the FRA, Ms. France was Chief Financial Officer of the Portfolio of Legal Affairs / Judicial Administration / Office of the Director of Public Prosecutions / Office of the Complaints Commissioner and Information Commissioner. Ms. France has 23 years of post-qualification accounting experience.

During 2016/2017 the FRA completed the recruitment of 2 Senior Financial Analysts. One was a new position, while the other was to fill the vacancy as a result of the resignation of Mr. Julian Hurlston. Mrs. Elena Jacob, an internal candidate with 9 years of experience as a Financial Analyst, was one of the successful candidates and started as a Senior Financial Analyst on 1 April 2017.

Mr. Delroy Dyer was the other successful candidate and joined as Senior Financial Analyst on 1 May 2017. Mr. Dyer brings 24 years of law enforcement experience to the role.

It is expected that all staff abide by the highest standards of integrity and professionalism. In particular, the FRA places great emphasis on the high level of confidentiality demanded by its role, as well as the financial industry with whom it interacts. It is the FRA’s belief that staff should have the appropriate skills to carry out their duties, and thus provides specialised training suited to individual responsibilities, in addition to continuing education to ensure that staff remain up-to-date with industry and

regulatory developments crucial to the effective functioning of the FRA.

Throughout the year, staff completed 32 days of training through conferences, seminars, workshops and online courses that included a Countering the Financing of Terrorism Joint Intelligence Workshop, the 12<sup>th</sup> Annual Anti-Money Laundering, Compliance and Financial Crime Conference, a Joint FATF/CFATF Assessors Training, a CFATF Pre-Assessment Training and the 2017 Offshore Alert Conference. FRA Staff also completed the Egmont E-Learning Operational Analysis Course.

FRA Staff also participated in and gained valuable experience from the 23 days spent representing the FRA at the 44<sup>th</sup> and 45<sup>th</sup> CFATF Plenary, the Egmont Working Groups and the Heads of FIU Meeting, as well as in presentations made to industry associations and reporting entities.

#### **4. Protecting Confidentiality of Information**

The PCL provides the framework for the protection of information obtained by the FRA. Furthermore a layered approach to security has been adopted for the FRA's office and systems. Protecting financial information received from reporting entities is a critical function of the FRA. Computer security measures include advanced firewalls to prevent unauthorised access to our database. In addition staff are aware of their responsibilities to protect information, and severe penalties exist, under the PCL, for the

unauthorised disclosure of information in our possession and control.

The FRA constantly reviews its security procedures to ensure that those procedures remain current in its continued effort to maintain confidentiality.

#### **5. Relationships**

##### Working with Financial Service Providers and Other Reporting Entities

The FRA recognises that the quality of the financial intelligence it produces is influenced directly by the quality of reports it receives from financial service providers and other reporting entities. If they are to produce insightful and relevant reports of superior quality, it is of utmost importance that they understand and are able to comply with the requirements of the PCL to which they are subject.

Recognising the vital importance of working with financial service providers and other reporting entities to raise awareness and understanding of their legal obligations under the PCL, the FRA meets with MLROs to share matters of mutual interest.

##### The Egmont Group

The Egmont Group of FIUs is an international, officially recognised body through the adoption of the Egmont Charter in the May 2007 Plenary held in Bermuda and the establishment of its permanent Secretariat in Toronto, Canada. Its membership currently

(2017) comprises 156 countries. It sets standards for membership as well as expanding and systematising international cooperation in the reciprocal exchange of financial information within its membership. The Cayman Islands' commitment to abide by the Egmont Group Principles for Information Exchange preceded its admission to full Egmont membership in 2000. The FRA will continue to participate in the Egmont Working Groups and the Director attending the Egmont Plenary and the heads of FIU meetings.

#### Memoranda of Understanding (MOUs)

The FRA can exchange information with other financial intelligence units around the world with regards to information in support of the investigation or prosecution of money laundering and/or terrorist financing. However some FIUs are required by domestic legislation to enter into arrangements with other countries to accommodate such exchanges. In this context the FRA is empowered by the PCL to enter into bilateral agreements with its counterpart giving effect to the global sharing of information.

The FRA did not enter into any new MOUs with FIUs during the Financial Year; however, it has signed and exchanged MOUs with the following 19 FIUs as of 30 June 2017: Australia, Canada, Chile, Guatemala, Honduras, Indonesia, Israel, Jamaica, Japan, Mauritius, Nigeria, Panama, Poland, Republic of Korea (South Korea), the Russian Federation, Saint Vincent and the Grenadines, South Africa, Thailand and the United States.

The FRA entered into a MOU with the ACC in April 2017 and previously entered into a MOU with CIMA back in 2004. We anticipate finalising a MOU with the RCIPS in October 2017 and it is intended that MOUs with the Immigration and Customs departments will be signed in the near future.

#### The Caribbean Financial Action Task Force

The CFATF is an organisation of states of the Caribbean basin that have agreed to implement common countermeasures to address the problem of money laundering. It was established as the result of meetings convened in Aruba, in May 1990, and Jamaica, in November 1992. CFATF currently has 25 member countries.

The main objective of the CFATF is to achieve implementation of and compliance with recommendations to prevent and combat money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction.

The Mutual Evaluation Programme (MEP) is a crucial aspect of the work of the CFATF, as it helps the CFATF Secretariat ensure that each member state fulfills the obligations of membership. Through this monitoring mechanism the wider membership is kept informed of what is happening in each member country that has signed the MOU. For the individual member, the MEP represents an opportunity for an expert objective assessment of the measures in place for fighting money laundering, terrorist financing and the

financing of the proliferation of weapons of mass destruction.

As part of the preparations for the Fourth Round of Mutual Evaluations, the World Bank, jointly with the CFATF and with the support of the Cooperating and Supporting Nations, has been providing training on the importance and fundamentals of the National Risk Assessment through targeted Workshops.

The NRA pertains to a country's obligation to identify, assess and effectively mitigate ML/TF risks and to use resources in the most efficient manner, as established by FATF Recommendation 1 – Assessing risk and applying a risks based approach.

FRA staff played a key role in completing the NRA for the Cayman Islands between 2014 and 2016.

#### The FATF Recommendations (2012)

Following the conclusion of the third round of mutual evaluations of its members, the FATF reviewed and updated the FATF Recommendations, in close co-operation with the FATF-Style Regional Bodies (which includes the CFATF) and the observer organisations.

The FATF Recommendations (2012) (“the Recommendations”) have been revised to strengthen global safeguards and further protect the integrity of the financial system by providing governments with stronger tools to take action against financial crime.

The Recommendations introduced the use of the risk based approach in Recommendation 1, stating that *“countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.”*

Recommendation 7 states that *“countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing.”*

Other noteworthy revisions are the inclusion of tax crimes as a predicate offence for the purposes of money laundering, and improved transparency to make it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements. The FRA was involved in a Tax Crimes Working Group (TCWG) set up by the Hon. Attorney General to explore ways for the Cayman Islands to comply with this requirement. The Penal Code (Amendment)(No. 2) Bill, 2017 proposes to make certain acts or omissions, when done with the intent to defraud the government, an offence in the Cayman Islands, including providing a false statement, omitting a statement or obstructing an officer in relation to the collection of money for the purposes of government revenue.

There are also stronger requirements when dealing with politically exposed persons (“PEPs”); more effective international cooperation, including exchange of information between relevant authorities, conduct of joint investigations, and the tracing, freezing and confiscation of illegal assets; and better operational tools and a wider range of techniques and powers, both for financial intelligence units, and for law enforcement agencies to investigate and prosecute money laundering and terrorist financing as well as associated crimes.

The FATF revised its Methodology in 2013, setting out the basis for undertaking assessments of technical compliance with the Recommendations. For its 4<sup>th</sup> round of mutual evaluations, the FATF has adopted complementary approaches for assessing technical compliance with the Recommendations, and for assessing whether and how the AML/CFT system is effective. Therefore, the Methodology comprises two components:

- a) The technical compliance assessment addresses the specific requirements of the Recommendations, principally as they relate to the relevant legal and institutional framework of the country, and the powers and procedures of the competent authorities.
- b) The effectiveness assessment seeks to assess the adequacy of the implementation of the Recommendations, and identifies the extent to which a country achieves a

defined set of outcomes that are central to a robust AML/CFT system. The focus of the effectiveness assessment is therefore on the extent to which the legal and institutional framework is producing the expected results.

A FATF press release dated 30 June 2014 stated the FATF has started its fourth round of mutual evaluations. Since then mutual evaluation reports on Armenia, Australia, Austria, Bangladesh, Belgium, Bhutan, Canada, Costa Rica, Cuba, Ethiopia, Fiji, Guatemala, Honduras, Hungary, Isle of Man, Italy, Jamaica, Malaysia, Norway, Samoa, Serbia, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Trinidad and Tobago, Tunisia, Uganda, United States, Vanuatu and Zimbabwe have been published on FATF’s website.



### III. PERFORMANCE REPORTING

#### 1. Receiving Information - Suspicious Activity Reports (SARs)

The FRA receives information from reporting entities relating to suspected money laundering, proceeds of criminal conduct, terrorism and the financing of terrorism through SARs. It also receives requests for information from local law enforcement agencies, CIMA and overseas FIUs. SARs and requests for information are collectively referred to as cases in this report.

Upon receipt, each case is examined to ensure that the report contains all the required data. The case is then assigned a reference number and data from the case is entered into the FRA SAR database.

For the year 2016/2017 the FRA received SARs from 148 different reporting entities. This number excludes the 27 overseas FIUs that voluntarily disclosed information or requested information from the FRA. SARs received from the 148 reporting entities are classified in the succeeding table according to the licence / registration that they hold with CIMA, if they are a regulated / registered entity. Reporting entities that are not regulated are classified according to the type of service that they provide. Regulated / registered entities are shown as part of the following sectors governed by CIMA: banking, fiduciary services, insurance services, investment funds and fund administrators, money transmitters

and securities investment businesses. Reporting entities that are not regulated are held under the term Designated Non-Financial Businesses and Professions (DNFBPs).

DNFBPs consist of law practitioners, accounting professionals, real estate brokers, and dealers of high value items.

The number of reporting entities increased from 140 in 2015/2016 to 148 in 2016/2017. Reporting entities in the banking sector continue to be the largest source of SARs.

The number of cases filed under each of those sectors and the DNFBPs are as follows:

Sector	No of Cases
Banking	209
Fiduciary services	132
Insurance services	13
Investment funds and fund administrators	47
Money transmitters	42
Securities investment businesses	18
DNFBPs	46
Requests for Information – Domestic	10
Disclosures & Requests for Information – Overseas	81
CIMA	3
<b>Total No of Cases</b>	<b>601</b>

Anyone who files a SAR has a defence to any potential related money laundering or terrorist financing offences. SARs filed under the PCL do not breach the newly enacted Confidential Information Disclosure Law, 2016, nor do they give rise to any civil liability. An important

exception to this rule is that it is no defence to such liability, if the person making the report is also the subject of the report.

Chart 3.1 on the succeeding page shows the total number of reports by financial year since 2013/2014. In 2016/2017 the FRA received 601 new cases, a 3% decrease compared to 2015/2016. While there was a decline in the number of reports received, the total number of reports exceeded 600 for the second consecutive fiscal year. Since fiscal year 2013-2014, the FRA has used its existing risk ranking for SARs to determine which reports are to be expedited while the rest are dealt with in accordance with existing timetables. The existing risk ranking for SARs allows the FRA to efficiently focus its limited resources.

The FRA has long held the view that the growing number of SARs is indicative of the vigilance of the reporting entities against money laundering and terrorist financing. The substantial number of reports in the past three fiscal years appears to have been influenced by due diligence reviews as a result of overseas tax, legal and regulatory updates coming into effect. In 2016/2017 reports appear to have been influenced by overseas corruption investigations involving multinational conglomerates.

The average number of cases received per month slightly decreased to 50 reports in 2016/2017, compared to 51 reports per month in 2015/2016. The previous record for largest number of reports received in a single month,

81 reports received in October 2015 and in June 2016, was exceeded by the 89 reports received in November 2016. (see Chart 3.2 on the next page).

The total number of subjects identified in SARs increased from 1,257 in 2015/2016 to 1,538 in 2016/2017 (see Chart 3.3 on page 18), a 22% increase. The total number of subjects that are natural persons increased to 978 in 2016/2017, with 90 of those natural persons being the subject of multiple SARs. The total number of legal entities identified as subjects totaled 560, with 48 of them being the subject of multiple SARs.

In some cases, particularly where the service provider has limited information about a counterpart to the transaction, the nationality or domicile of the subject is not known. This is also the situation in those reports relating to declined business and scams. There are also instances when a requesting overseas FIU does not have complete details regarding the nationality of all the subjects of their request. During the year, the number of subjects with unknown nationality or country of incorporation was 417, comprising 237 natural persons and 180 legal entities.

The number of subjects whose nationality or country of incorporation is not identified declines from 417 to 201 when subjects from overseas request for information and cases from money transmitters are excluded. Several money transmitters and overseas

FIUs cases failed to identify the subject's nationality or jurisdiction of incorporation.

Chart 3.1 below and Chart 3.2 on the next page do not include SARs received during 2016/2017 that were updates to a previously submitted report that is pending. As a consequence, the subjects of those updates are not included in the number of legal entities and natural persons identified as subjects of SARs in Chart 3.3 on page 18.

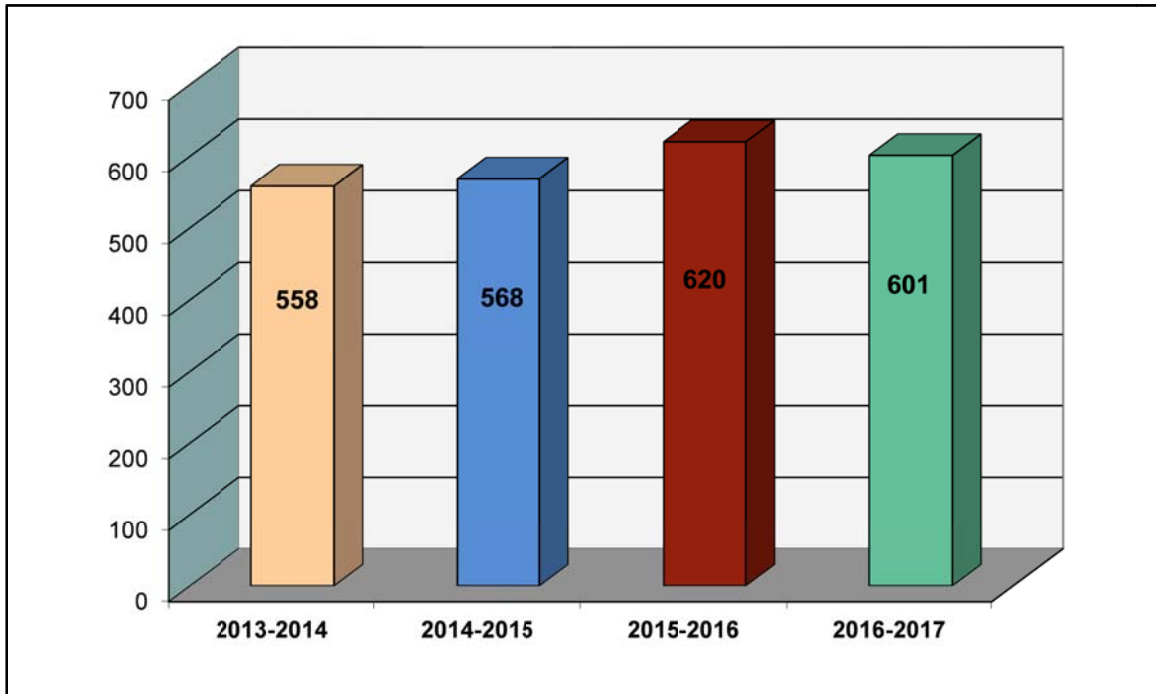


Chart 3.1: Total cases by financial year

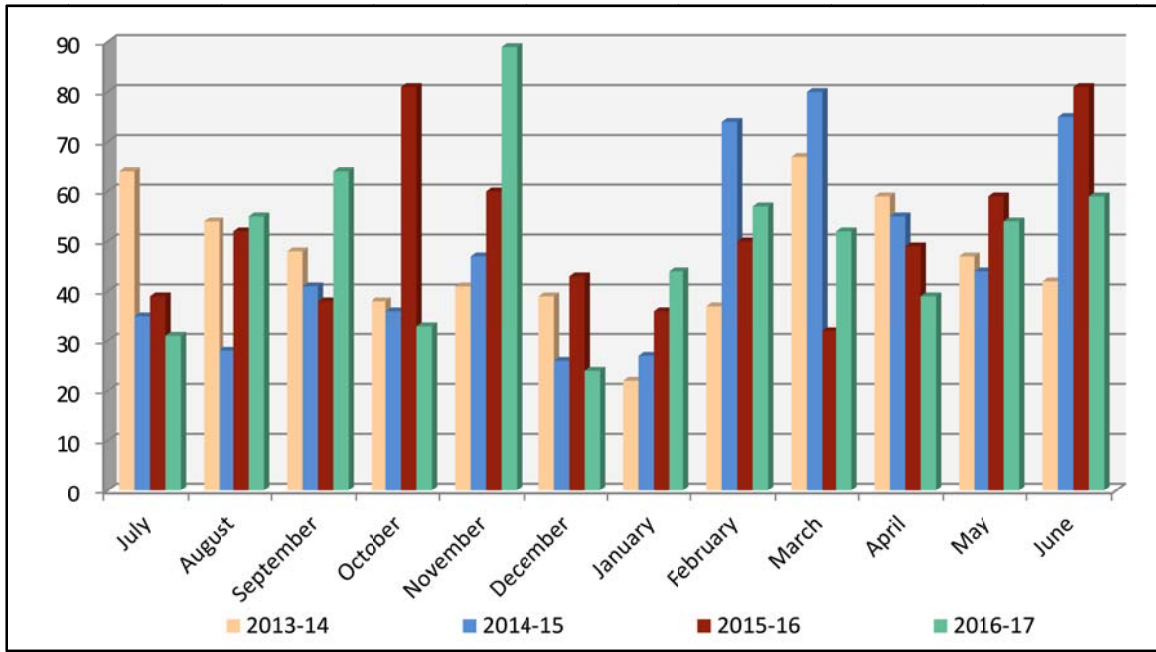


Chart 3.2: Comparison of monthly cases received

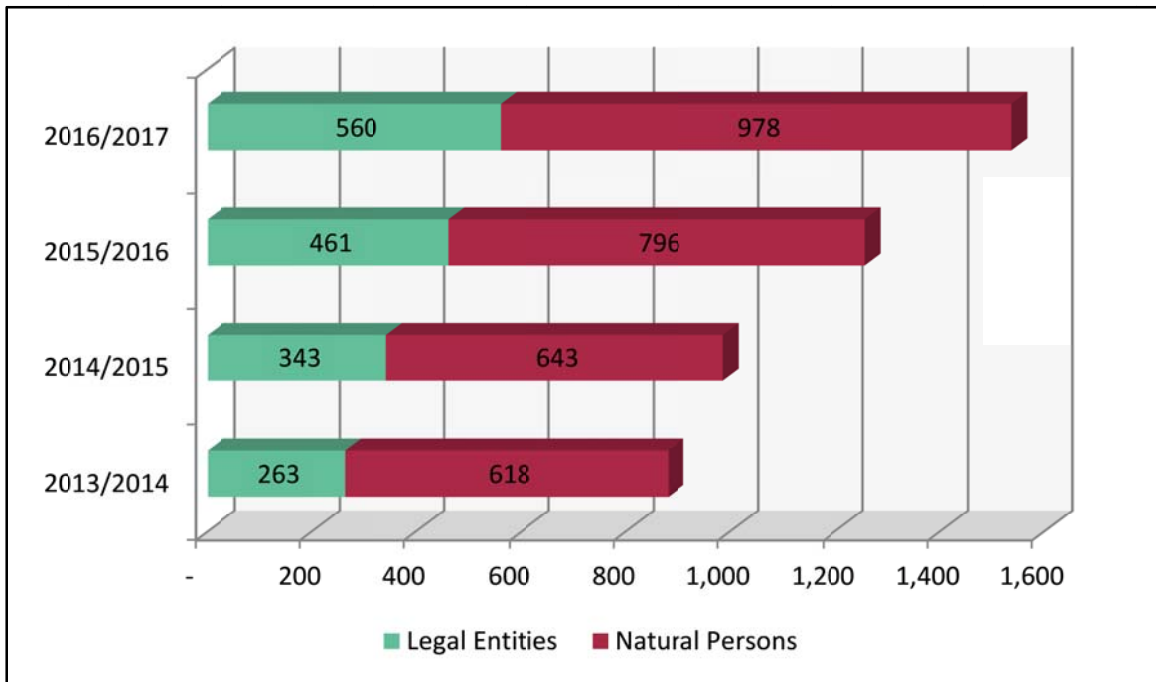


Chart 3.3: Number of subjects by financial year

### Countries of Subjects Reported

The international scope of the Cayman Islands' financial services industry is reflected in the wide range of subjects' countries reported in cases. The "Countries of Subjects" chart on the succeeding page lists 89 different countries for the subjects of the reports. In light of the international character of the subjects reported, our membership of the Egmont Group has proven to be a valuable resource for information exchange and requests and has enhanced the analysis of information reported in the development of intelligence.

The greatest number of subjects was classed as Caymanian. Of those 297, 64 were Caymanian nationals (natural persons) and 233 were legal entities established in the Cayman Islands. The United States provided the second largest number at 108, comprising 95 natural persons and 13 legal entities. Third was Ecuador with 84 natural persons and 12 legal entities. Brazil with 69 natural persons and 8 legal entities and the United Kingdom with 50 natural persons and 2 legal entities complete the top 5 countries. Canada, the British Virgin Islands, Panama and China are the only other countries with 30 or more subjects. Together these nine countries account for 772 subjects, which represents 50% of the total.

The category "Others" in the Chart 3.4 is comprised of subjects from Anguilla, Antigua

and Barbuda, Austria, Azerbaijan, Bahrain, Barbados, Belgium, Bermuda, Bulgaria, Cook Islands, Cuba, Curacao, Czech Republic, Dominican Republic, Guernsey, Guyana, Iraq, Kenya, Kuwait, Lebanon, Liberia, Libya, Liechtenstein, Macau, Mexico, New Zealand, Nicaragua, Nigeria, Norway, Paraguay, Portugal, Singapore, South Africa, Spain, St. Kitts and Nevis, St. Vincent and the Grenadines, Sweden, Syria, Tanzania, Thailand, Turkey, Ukraine, Uruguay and Yemen.

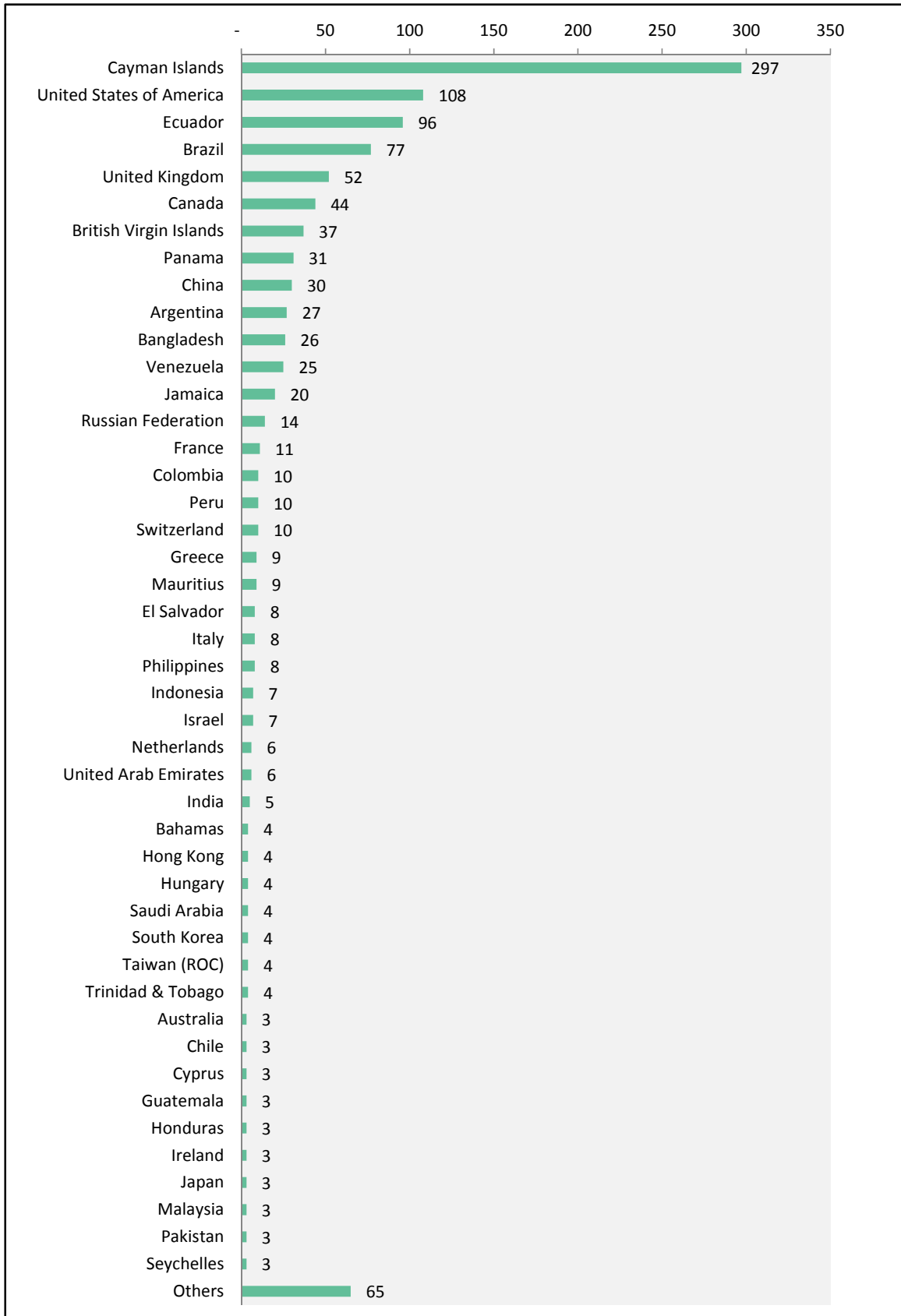


Chart 3.4: Countries of subjects in SARs reported in 2016/2017

Sources of Cases

Chart 3.5 shows a detailed breakdown of the sources of cases. CIMA regulated financial service providers provided a substantial portion of the cases that the FRA received. The five largest contributors were:

- Banks - 209
- Overseas Financial Intelligence Units - 81
- Trust Companies – 76
- Company Managers / Corporate Service Providers – 56
- Money Transmitters – 41

Banks continue to be the largest source of SARs received. The number of banks making reports decreased from 34 in 2015/2016 to 25 in 2016/2017. This was due to a 33% decrease in the number of Class B banks filing reports.

Trust Businesses and Company Managers / Corporate Service providers continue to be a significant source of SARs with a combined 132 SARs in 2016/2017. This increased from the 87 received in 2015/2016.

Money Transmitters filed 42 SARs in 2016/2017, a 42% decrease from the 72 SARs submitted in 2015/2016.

The 38 SARs from mutual fund administrators in 2016/2017 was on par with the 36 received in 2015/2016.

The largest number of SARs we received from DNFBPs came from law practitioners. Other

DNFBPs filing SARs included: accounting professionals, real estate brokers and dealers of high value goods.

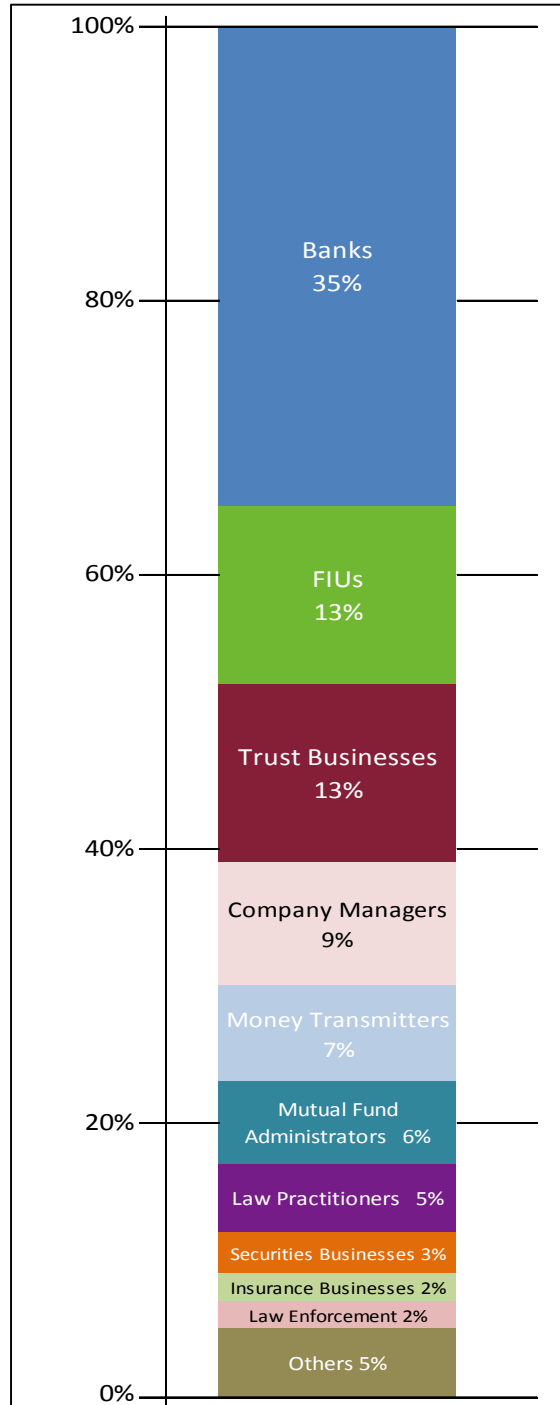


Chart 3.5: Sources of Cases

## 2. Analysing Information

The FRA conducts in-depth research and analysis by matching data in the SAR to existing records and intelligence information in the SAR database, as well as to information contained in other external databases. An important element of the FRA's analysis is the ability, provided for by the PCL, to request information from any person, in order to clarify or amplify information disclosed in a report, or at the request of an overseas FIU. Failure to provide this information within 72 hours is an offence under the PCL. A second important element is the FRA's ability to request and exchange information with Egmont Group members.

Consistent with the provisions of the PCL, the FRA made 64 requests locally to clarify or amplify information received in 56 cases. Sixteen (16) requests for information to overseas FIUs were made via the Egmont

Secure Web, arising from 13 cases. These requests greatly assisted the FRA in determining whether to make disclosures to local law enforcement, as well as to overseas FIUs. Chart 3.6 below shows the number of requests made locally and overseas for the past four years.

Upon completion of the analysis, an assessment is made to determine if the analysis substantiates the suspicion of money laundering, financing of terrorism or criminal conduct. If, in the opinion of the Director, this statutory threshold is reached, the FRA discloses the information to the appropriate local law enforcement agency, CIMA or overseas FIU.

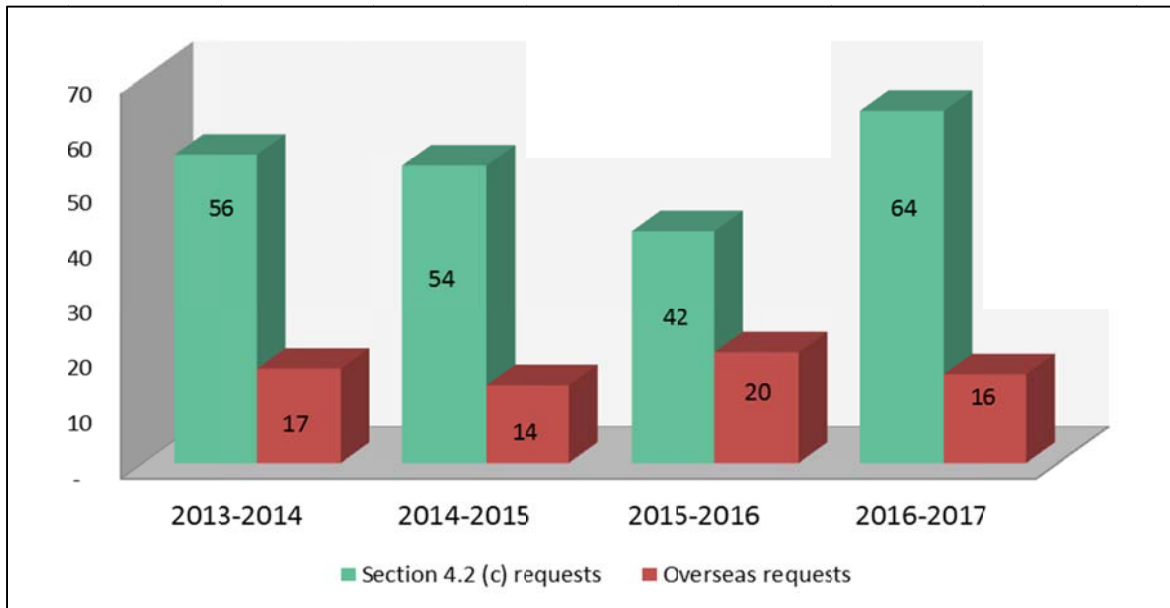


Chart 3.6: Number of request made locally and overseas



SARs Trend Analysis

The five most common reasons for filing reports during the Financial Year were:

- suspicious financial activity – 181
- fraud – 147
- tax evasion - 83
- corruption – 77
- money laundering – 33

Included in the 147 reports citing fraud as the reason for suspicion are: bank fraud, investment/securities fraud and unlawful schemes and other financial fraud. Included in unlawful schemes and other financial fraud are: business email compromise schemes, debt collection scams, and variations of counterfeit cheque schemes. Table 3.7 below provides a detailed breakdown of the reasons for suspicion.

Reason	%
Suspicious Activity	30%
Fraud	25%
Tax Evasion	14%
Corruption	13%
Money Laundering	6%
Regulatory Matters	3%
Declined Business	2%
Terrorist Financing	1%
Drug Trafficking	1%
Others	5%
<b>Total</b>	<b>100%</b>

Table 3.7: Reasons for suspicion

**Suspicious Financial Activity**

A large number of reports filed with the FRA are due to ‘suspicious activity’, wherein the reporting entity is noticing more than one

unusual activity but could not arrive at a specific suspicion of an offense. The FRA recognises that this is a perfectly valid reason to submit a SAR.

After detailed analysis by the FRA, many of these reports fail to meet the statutory threshold for disclosure. Nevertheless, they form a vital part of intelligence gathering and help build a clearer picture of the money-laundering threat to the Islands and help safeguard against criminal elements.

Some of these suspicious activities when matched to information in the FRA’s SAR database have led to the identification of criminal conduct or suspicions of criminal conduct.

While suspicious activity continues to be the largest reason for reports received in 2016/2017, its percentage of the total number of reports has declined from previous years. For this Annual Report, reports that raise a suspicion of tax evasion have been categorised separately in anticipation of foreign tax crimes being recognised as criminal conduct in the Cayman Islands.

In an effort to provide a more detailed breakdown of what types of activities were deemed suspicious by SAR filers, we have grouped the reports by the most recognizable of the activities as follows:

- a) **55 reports regarding inadequate and / or inconsistent information:** Reports with inadequate and / or inconsistent information provided are those where

- the reporting entities have received inadequate information or deemed responses to their continuing due diligence inquiries as being evasive, incomplete or inconsistent.
- b) **49 reports regarding high volume transactions:** Reports about high volume transactions, including those involving cash, consist of reports about subjects making multiple cash transactions (i.e., deposits, withdrawals or remittances), as well as accounts that have a noticeable high volume compared with similar accounts. Most of the time these would also involve suspicions about the sources of funds being remitted or deposited.
- c) **39 reports that involve unusual conditions or circumstances:** Unusual conditions or circumstances include suspicions about the physical condition of the money / asset being transacted, and could also include concerns about the sources of those funds. These also include unusual inquiries or requests by account holders or an approach made by local authorities for information about a customer or an account.
- d) **19 reports about transactions inconsistent with client profile:** Reports about transactions that are inconsistent with the established client profile include reports where the FSP identified that its client's recent transactions do not match the profile initially provided when the account was established and the client's explanation for the transactions appears to raise further questions.
- e) **10 reports about activities that appear to lack economic purpose:** Reports about activities that appear to lack economic purpose include those that involve complex structures where payments appear to merely pass through accounts. It also includes reports about funds being withdrawn from insurance policies within a relatively short period of time from their establishment.
- f) **9 reports of transactions that appear to be structured to avoid reporting thresholds:** These include reports from banks where there appear to be attempts to break transactions into smaller amounts to avoid reporting thresholds, as well as reports about multiple overseas cash withdrawals via ATMs. It also includes reports from money remitters about customers keeping their remittance below a certain amount so as to avoid having to provide source of funds information.

### **Fraud**

Fraud is the second most common reason for the filing of suspicious activity reports. Included in this category are bank fraud, securities fraud, internet fraud and other financial scams. During 2016/2017 the FRA received reports regarding the following:

#### *Bank Fraud*

Cases about bank fraud generally involved the use of illegal means to obtain money, assets,

or other property owned or held by a financial institution, or to obtain money from depositors by fraudulently posing as a bank or other financial institution. This can involve the use of the internet or online schemes. Included in reports about bank fraud are account take-over schemes, forged cheques, cheque kiting, debit or credit card skimming and fraudulent bank reference letters.

Internet fraud and online schemes have been an area of concern for law enforcement. Just as technology has become an integral part of business and government processes, criminals also have come to rely on technology as a tool to support their illegal operations. Based on reports received, banks and their customers continue to be the target of phishing and account take-over schemes. While account take over usually occurs via phished online log-in credentials, the FRA has also noticed that compromised email accounts have been used by fraudsters to issue fraudulent payment instructions to transfer money from bank accounts, commonly referred to as Business Email Compromise (BEC) frauds.

During 2016-2017 the FRA continued to see reports about "CEO Fraud" targeting a cross section of FSPs. CEO Frauds typically start with an email being sent from a fraudster purporting to be a company director or CEO to a member of staff in a company's finance department. The email is made to appear similar to that of a legitimate user and instructs the member of staff that the director or CEO needs to quickly transfer money to a certain

bank account for a specific reason. The member of staff will do as his / her superiors have instructed, only to discover later that the instructions were not legitimate.

Fraudsters exploit the amount of time that the fraud remains undiscovered by quickly moving the money into mule accounts. Most filings reported companies initially being contacted via emails that are made to appear similar to those of the legitimate users.

#### *Investment/Securities Fraud*

Investment/Securities Fraud, more specifically insider trading and stock manipulation, are regularly identified as reasons for suspicions. Most of these reports received during the year raised suspicions that the services of Cayman Islands based financial service providers are being abused to facilitate deceptive practices in the stock or commodities markets. Other reports raised suspicions that assets owned by an individual or entity that has been the subject of adverse reports regarding insider trading and stock manipulation may be tainted with the proceeds of the illegal scheme and that the reporting entity could not confirm or eliminate such possibility. A smaller portion of those reports are about actual transactions that give rise to suspicion of trading on insider information or schemes that manipulate stock values.

#### *Unlawful schemes and other financial fraud*

Suspensions of fraud through unlawful schemes, or other financial fraud, include those that involve the use of deception such as ponzi schemes, pyramid schemes, mortgage fraud

schemes and advance fee frauds. Some of the reports received during the year also identified subjects absconding with investor funds.

While significantly less than in the previous year, the FRA continues to receive SARs about “person in need schemes”, which appear to be a variation of advance fee fraud schemes. The reports were about potential perpetrators of this type of fraud who were identified through the money being received. These individuals appear to receive funds from multiple third parties and subsequently remit those funds to other overseas individuals. The explanation for the purpose of the transaction appears to lack an economic purpose.

In prior years, the FRA received reports about fraudulent overpayment schemes that target Cayman Islands based online consumer-to-consumer shopping websites. In this scheme, the buyer claims to be from overseas and creates an excuse to make payment in the form of a cashier's cheque, money order or personal cheque for more than the selling price. They then instruct the seller to wire them back the extra money. The cheque the buyer sends bounces and the seller is then liable for the total amount of the cheque. More recent reports received by the FRA identified a variation of this counterfeit cheque overpayment scam that targets Cayman Islands based real estate brokers by posing as individuals wishing to acquire or rent property in the Cayman Islands.

The number of reports about debt collection scams where the perpetrators claim to be

international clients with large commercial accounts that need to be placed with a local collection agency for collection has significantly decreased; however, such types of fraud continue to crop up as evidenced by the occasional SAR still being received.

Other cases where fraud or some form of deception have been suspected include cases about excessive fees charged by a financial service provider, suspicions of breach of investment guidelines, allegations of misappropriation of funds or suspicions of fraudulent financial reporting.

### **Corruption**

Heightened enforcement efforts against bribery and corruption in many countries has led to heightened monitoring and scrutiny of transactions that are linked to politically exposed individuals, and to companies doing business with foreign governments. Further, global benchmarks in anti-bribery legislation like the UK's Bribery Act 2010 and the US Foreign Corrupt Practices Act (“FCPA”) made the bribery of foreign public officials an offence that extends beyond company employees to include the behaviour of third parties acting on behalf of a company.

In the Cayman Islands, the ACL has brought the focus of bribery and corruption firmly into the minds of those operating businesses in the Cayman Islands. This has led to more SARs that identify corruption as the primary suspicion.

During 2016/2017 reports that identified corruption included those involving entities

whose beneficial owners, or related parties, are linked to local or overseas corruption investigations. Among the notable overseas corruption investigations identified in reports are:

- A Brazilian holding company's agreement with US authorities to pay record fines for violating various countries' anti-bribery and corruption laws, including the US FCPA.
- Civil forfeiture action by US Authorities seeking the recovery of assets associated with an international conspiracy to launder funds misappropriated from a Malaysian sovereign wealth fund.
- The continuing investigation of corruption at a state-controlled oil company by the Federal Police of Brazil, which included allegations that executives accepted bribes in return for awarding contracts to construction firms at inflated prices.
- The continuing criminal prosecutions in cases of corruption by officials of continental football bodies, and sports marketing executives, on suspicion of receiving bribes.

Domestic corruption investigations as reported by local publications have also resulted in a number of reports about PEPs, private individuals and legal entities.

Most of the reports conclude that the reporting entity could not confirm or eliminate the

possibility that assets held or transacted were tainted with the proceeds of the corrupt activities.

Also included in this category are requests for information from overseas FIUs regarding corruption investigations, transactions which appear to be linked to bribes or the solicitation of bribes or kick-backs.

### **Money Laundering**

The processes by which proceeds of crime may be laundered are extensive. The financial services industry, which offers services and products for managing, controlling and possessing money and property belonging to others, is susceptible to abuse by money launderers. While all crimes can be a predicate offence for money laundering, this category is used by the FRA to identify SARs whose reason for suspicion is the specific act of disguising the original ownership and control of the proceeds of criminal conduct, by making such proceeds appear to have been derived from a legitimate source. This includes the provision of financial services that aid in the concealment of the original ownership and control of the proceeds of criminal conduct.

Over a third of the SARs held in this category are requests for information from overseas FIUs pertaining to money laundering investigations. Most of these requests for information mention money laundering as the offence under investigation, though at times the details that brought about those suspicions are not clearly identified.

SARs received from domestic reporting entities in this category include those reports that identify that the subject is under an overseas investigation, or is closely associated with individuals who are under money laundering investigation. Also included in this category are those reports that identify transactions that appear to be structured to defeat money laundering guidelines.

### **Tax Evasion**

Because of the dual criminality provisions in the PCL whereby, to qualify as a predicate offence, a series of facts would have to be illegal both in the overseas country and the Cayman Islands, the FRA cannot act on pure allegations of unlawful evasion of direct taxation as no direct taxation exists in the Cayman Islands.

As mentioned earlier, the requirement under FATF Recommendation 3 to include tax crimes as a predicate offence for money laundering has resulted in a proposed amendment to the Penal Code to make certain acts or omissions, when done with the intent to defraud the government, an offence in the Cayman Islands

Currently, allegations of fraud, unlawful misrepresentations and false accounting are treated as satisfying the dual criminality test even if the aim of those activities is evasion of direct taxation.

Reports that raise suspicions about individuals or entities deliberately misrepresenting the true state of their affairs to the tax authorities,

to reduce their liability for property and transfer taxes as well as customs duties, have always been caught as similar provisions exist in the Cayman Islands.

The US Foreign Account Tax Compliance Act (US FATCA) imposed a duty on foreign financial institutions, such as banks, to enter into an agreement with the IRS to identify their U.S. personal account holders and to disclose the account holders' names and addresses, and the transactions of most types of accounts. US FATCA was implemented in Cayman in accordance with the Cayman-US Intergovernmental Agreement ("IGA") signed in November 2013 and the Tax Information Authority (International Tax Compliance) (United States of America) Regulations, published in July 2014.

UK FATCA imposed similar obligations on foreign financial institutions for UK tax reporting purposes. UK FATCA was implemented in Cayman in accordance with the Cayman-UK IGA signed in November 2013 and The Tax Information Authority (International Tax Compliance) (United Kingdom) Regulations, published in July 2014. In transitioning to the CRS, the UK has indicated that for 2016, both the UK IGA and CRS will be operational for all Overseas Territories and Crown Dependencies. It is anticipated that the UK FATCA IGA, regulations and guidance notes will be phased out.

Common Reporting Standard (CRS) is a global reporting standard developed by the Organisation for Economic Co-operation and

Development to facilitate the automatic exchange of financial information for tax purposes between jurisdictions that have adopted the standard. To date over 100 jurisdictions have committed to the regime, 60 of which, including the Cayman Islands, have formally adopted CRS by signing the Multilateral Competent Authority Agreement. On 16 October 2015, the Cayman Islands introduced the Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations, 2015 (the Regulations) to implement the CRS.

The Tax Information Authority (“TIA”) is the sole dedicated channel in the Cayman Islands for international cooperation on matters involving the provision of tax related information. The TIA is a function of the Department for Tax International Tax Cooperation (“DITC”). The TIA has statutory responsibility under the Tax Information Law (2016 Revision).

All relevant legislation, regulations, and guidance are available on DITC’s website:

<http://www.tia.gov.ky/html/index.htm>

Currently, the mere fact that an account holder seeks to close an account, when the sole reason for doing so appears to be an attempt to thwart the provisions of US FATCA, UK FATCA or CRS, would not, in the absence of anything further, usually be sufficient to warrant the submission of a SAR.

### 3. Disseminating Intelligence

#### Disposition of Cases

The dissemination or disclosure of financial intelligence, resulting from its analysis, is a key function of the FRA. Once information is analysed and the Director has reviewed and agreed with the findings, a determination is made regarding onward disclosure. Financial intelligence is disclosed to the following designated agencies where the required statutory threshold has been met:

- Local law enforcement agencies where there is *prima facie* evidence of criminal conduct or where the FRA has cause to suspect criminal conduct.
- CIMA where the FRA has cause to suspect criminal conduct.
- Overseas financial intelligence units where the FRA has cause to suspect criminal conduct. Overseas disclosures require the consent of the Attorney General who considers the purpose of the disclosure, third party interests, and may impose any other conditions of disclosure.

The statutory purposes of onward disclosure are to:

- report the possible commission of an offence;
- initiate a criminal investigation;
- assist with any investigation or criminal proceeding; or
- facilitate the effective regulation of the financial services industry.

Cases which do not meet the threshold for disclosure are retained in the FRA's confidential SAR database pending future developments. As new cases are received and matched with data in the SARs database, prior cases may be re-evaluated with the receipt of new information.

In 2016/2017, the FRA received 601 new reports. The FRA completed the review of 206 of these reports, leaving 395 in progress at year-end. Of the 206 new reports analysed 107 resulted in a disclosure, 57 were deemed to require no further immediate action, 36 were replies to requests from FIUs and 6 were replies to requests from local agencies.

The five most common reasons for reports that resulted in a disclosure during the Financial Year were:

- fraud – 44
- suspicious financial activity – 34
- corruption – 17
- money laundering – 3
- tax evasion - 3

The 34 reports citing suspicious activity as the reason for filing comprised 10 reports involving activities inconsistent with the client profile, 9 reports regarding high volume or cash transactions, 9 reports involving unusual conditions or circumstances and 6 reports involving inadequate/inconsistent information.



Disposition	No. of Cases			
	2016-17	2015-16	2014-15	2013-14
Cases Analysed Requiring No Further Action	57	157	261	278
Cases Analysed that resulted in a Disclosure	107	169	157	213
Reply to Overseas Requests	36	58	55	59
Reply to Local Requests	6	3	-	-
In Progress (as at 30 June 2016)	395	233	95	8
<b>Total Cases</b>	<b>601</b>	<b>620</b>	<b>568</b>	<b>558</b>

Table 3.8 Disposition of reports received as at 30 June 2017

The FRA also completed analysis on 83 of 316 reports carried over from 2015/2016, 39 of 134 reports carried over from 2014/2015 and 4 of 12 reports carried over from 2013/2014, a total of 126 reports. Of the 126 previous reports that were completed, 66 were deemed to require no further immediate action, 47 resulted in a disclosure and 13 were replies to requests from FIUs.

Table 3.8 shows the disposition of the reports for the past four years as at 30 June 2017.

As at June 30, 2017 the FRA had commenced initial analysis on 58 of 395 pending 2016/2017 cases. Those 58 cases were in varying stages of completion, with some waiting on clarifying/amplifying information, while others are in need of further research. The pending cases from previous years (233 reports from 2015/2016, 95 reports from 2014/2015, 8 reports from 2013/2014 and 1 report from 2012/2013) are under continuing analysis with varying stages of completion.

The total number of reports that resulted in voluntary disclosures during 2016/2017 was 154. These 154 reports comprise 107 reports from 2016/2017, 34 reports carried over from

2015/2016, 11 reports carried over from 2014/2015, and 2 reports carried over from 2013/2014. Those voluntary disclosures as well as other action taken on cases carried over from prior years are reflected in Table 3.8 above. (See Table 3.11, 3.12 and 3.13 for prior year comparison). Information contained in those 154 reports was disclosed in the manner shown in Table 2.9 below. The total number of cases disclosed exceeded the number of actual cases, as some disclosures were made to more than one local law enforcement agency and / or overseas FIUs.

Recipient	No. of Cases Disclosed			
	16/17	15/16	14/15	13/14
RCIPS	79	21	8	-
CIMA	32	8	1	-
Other LLEAs	6	4	1	-
Overseas FIUs	49	19	4	2

Table 3.9: Number of disclosures made during 2016/2017

### Voluntary Disclosures Overseas

The FRA discloses financial intelligence to its overseas counterparts, either as a result of a suspicion formed through its own analysis, or in response to a request for information. During the year, the FRA made 103 voluntary disclosures to overseas FIUs from 74 reports

completed. Those 74 cases comprise 49 reports from 2016/2017, 19 reports carried over from 2015/2016, 4 reports carried over from 2014/2015 and 2 reports carried over from 2013/2014.

The FRA also provided responses to 50 requests for information from overseas FIUs. Those reports comprise 36 reports from 2016/2017, 11 reports carried over from 2015/2016 and 2 reports carried over from 2014/2015.

Chart 3.10 on the next page shows that those voluntary disclosures and responses went to 44 different countries. The United States and Malaysia received the largest number of disclosures from the FRA.

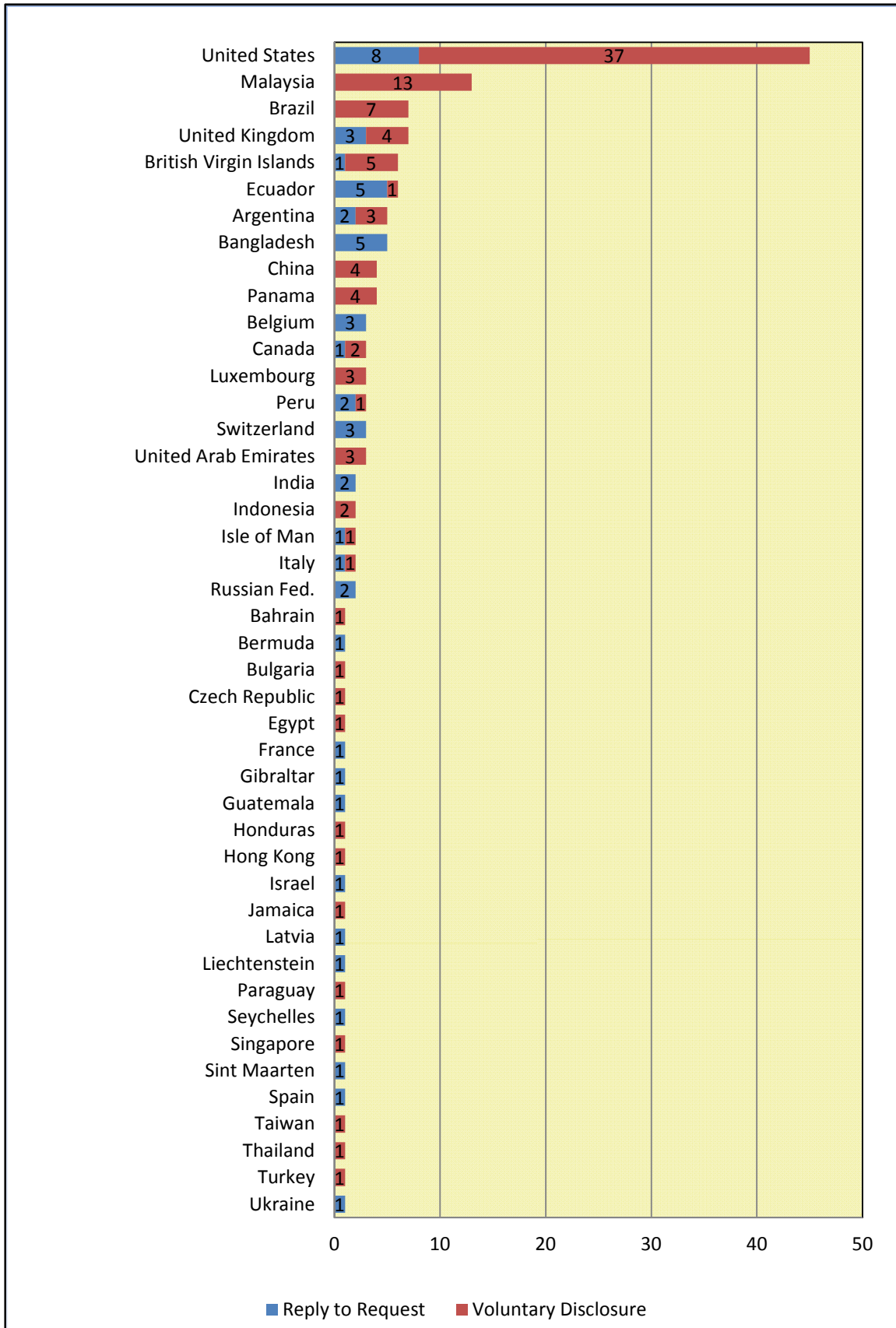


Chart 3.10: Overseas disclosures and replies to request for information

**Disposition of 2015/2016 Reports Carried Over to 2016/2017**

The FRA began 2016/2017 with 316 reports carried over from 2015/2016. During 2016/2017, 83 of those reports were completed: 38 reports were deemed to require no further action, 34 resulted in a disclosure and 11 were replies to requests from FIUs. Of the 34 reports that resulted in a disclosure,

information contained in those reports were disclosed to the RCIPS (21 disclosures), to CIMA (8 disclosures), to Overseas FIUs (19) and other local law enforcement agencies (4 disclosures).

The updated disposition of reports from 2015/2016 is as follows:

Disposition	2015-16 Cases Carried Over to 2016-17	2015-16 Cases Analysed in 2015-16	Total
Cases Analysed Requiring No Further Action	38	119	157
Disclosed to CIMA only	-	4	4
Disclosed to CIMA and Overseas FIU	2	1	3
Disclosed to CIMA and HM Customs	-	1	1
Disclosed to CIMA and RCIPS	4	11	15
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	2	2
Disclosed to CIMA, RCIPS and Overseas FIU	2	4	6
Disclosed to HM Customs only	2	-	2
Disclosed to RCIPS only	8	76	84
Disclosed to RCIPS and CI Immigration	-	16	16
Disclosed to RCIPS, CI Immigration and Overseas FIU	1	-	1
Disclosed to RCIPS and Overseas FIU	5	14	19
Disclosed to CI Immigration only	1	1	2
Disclosed to Overseas FIU only	9	3	12
Reply to Domestic Requests	-	3	3
Reply to Overseas Requests	10	48	58
Reply to Overseas Requests and Disclosed to RCIPS	1	-	1
In Progress as of 30 June 2016		316	316
Cases carried forward to 2016-17	(316)	-	(316)
In Progress as of 30 June 2017	233	-	233
<b>Total Cases</b>	<b>-</b>	<b>620</b>	<b>620</b>

Table 3.11: Disposition of cases carried over from 2015/2016

### Disposition of 2014/2015 Reports Carried Over to 2016/2017

The FRA began 2016/2017 with 134 reports carried over from 2014/2015. During 2016/2017, 39 of those reports were completed: 26 reports were deemed to require no further action, 11 resulted in a disclosure and 2 were replies to requests from FIUs. Of the 11 reports that resulted in a disclosure, information contained in those reports were disclosed to the RCIPS (8 disclosures), to CIMA (1 disclosure), to Overseas FIUs (4) and

other local law enforcement agencies (1 disclosure).

The reports completed in 2016/2017 brought the total number of 2014/2015 reports that resulted in a disclosure to 157 reports from last year's 146 reports. The updated disposition of reports from 2014/2015 is as follows:

Disposition	2014-15 Cases Carried Over to 2016-17	2014-15 Cases Analysed through 2015-16	Total
Cases Analysed Requiring No Further Action	26	235	261
Disclosed to CIMA only	-	34	34
Disclosed to CIMA and Overseas FIU	-	3	3
Disclosed to CIMA and RCIPS	1	9	10
Disclosed to CIMA, RCIPS and CI Immigration	-	2	2
Disclosed to CIMA, RCIPS and Overseas FIU	-	10	10
Disclosed to RCIPS only	5	62	67
Disclosed to RCIPS and CI Immigration	1	6	7
Disclosed to RCIPS and Overseas FIU	1	9	10
Disclosed to CI Immigration only	-	1	1
Disclosed to Overseas FIU only	3	10	13
Reply to Overseas Requests	2	53	55
In Progress as of 30 June 2016		134	134
Cases carried forward to 2015-16	(134)		(134)
In Progress as of 30 June 2016	95		95
<b>Total Cases</b>	<b>-</b>	<b>568</b>	<b>568</b>

Table 3.12: Disposition of cases carried over from 2014/2015

### Disposition of 2013/2014 Reports Carried Over to 2016/2017

During 2016/2017, the FRA also completed 4 of the 12 reports carried over from 2013/2014. Of the 4 reports completed: 2 were deemed to require no further action, 2 resulted in a disclosure to overseas FIUs.

The updated disposition of reports from 2013/2014 is as follows:

Disposition	2013-14 Cases Carried Over to 2016-17	2013-14 Cases Analysed through 2015-16	Total
Cases Analysed Requiring No Further Action	2	276	278
Disclosed to CIMA only	-	40	40
Disclosed to CIMA and RCIPS	-	19	19
Disclosed to CIMA, RCIPS and Overseas FIU	-	12	12
Disclosed to RCIPS only	-	73	73
Disclosed to RCIPS and CI Immigration	-	15	15
Disclosed to RCIPS, CI Immigration, and HM Customs	-	2	2
Disclosed to RCIPS and Overseas FIU	-	28	28
Disclosed to CI Immigration only	-	4	4
Disclosed to Overseas FIU only	2	15	17
Disclosed to the Attorney General's Office	-	1	1
Reply to Overseas Requests	-	59	59
Reply to Overseas Requests, Disclosed to RCIPS	-	2	2
In Progress as of 30 June 2016		12	12
Cases carried forward to 2016-17	(12)		(12)
In Progress as of 30 June 2016	8		8
<b>Total Cases</b>	<b>-</b>	<b>558</b>	<b>558</b>

Table 3.13: Disposition of cases carried over from 2013/2014

### Disposition of 2012/2013 Cases Carried Over to 2016/2017

The updated disposition of cases from 2012/2013 is as follows:

Disposition	2012-13 Cases Carried Over to 2016-17	2012-13 Cases Analysed through 2015-16	Total
Cases Analysed Requiring No Further Action	-	165	165
Disclosed to CIMA only	-	35	35
Disclosed to CIMA and RCIPS	-	14	14
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS and Overseas FIU	-	5	5
Disclosed to RCIPS only	-	57	57
Disclosed to RCIPS and CI Immigration	-	10	10
Disclosed to RCIPS and HM Customs	-	1	1
Disclosed to RCIPS, CI Immigration, HM Customs and Overseas FIU	-	2	2
Disclosed to RCIPS and Overseas FIU	-	7	7
Disclosed to CI Immigration only	-	2	2
Disclosed to Overseas FIU only	-	28	28
Reply to Local Requests	-	5	5
Reply to Overseas Requests	-	59	59
In Progress as of 30 June 2016		1	1
Cases carried forward 2016-17	(1)		(1)
In Progress as of 30 June 2017	1		1
<b>Total Cases</b>	<b>-</b>	<b>392</b>	<b>392</b>

Table 3.14: Disposition of cases carried over from 2012/2013

#### 4. The Year in Review

The following table shows the detailed disposition of the cases as at 30 June 2017:

Disposition	No. of Cases			
	2016-17	2015-16	2014-15	2013-14
Cases Analysed Requiring No Further Action	57	157	261	278
Disclosed to CIMA only	9	4	34	40
Disclosed to CIMA and Overseas FIU	9	3	3	-
Disclosed to CIMA and HM Customs	-	1	-	-
Disclosed to CIMA and RCIPS	4	15	10	19
Disclosed to CIMA, RCIPS and CI Immigration	1	1	2	
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	2	-	-
Disclosed to CIMA, RCIPS and Overseas FIU	9	6	10	12
Disclosed to HM Customs only	-	2	-	-
Disclosed to RCIPS only	39	84	67	73
Disclosed to RCIPS and CI Immigration	4	16	7	15
Disclosed to RCIPS and HM Customs	1	-	-	
Disclosed to RCIPS, CI Immigration, HM Customs	-	-	-	2
Disclosed to RCIPS, CI Immigration, and Overseas FIU	-	1	-	-
Disclosed to RCIPS and Overseas FIU	21	19	10	28
Disclosed to CI Immigration only	-	2	1	4
Disclosed to Overseas FIU only	9	12	13	17
Disclosed to the Attorney General's Office	-	-	-	1
Reply to Requests Local	6	3	-	-
Reply to Overseas Requests	36	58	55	59
Reply to Overseas Requests, Disclosed to Overseas FIU	1	-	-	-
Reply to Overseas Requests, Disclosed to RCIPS	-	1	-	2
In Progress – initial analysis completed	58	39	46	8
In Progress – initial analysis incomplete	337	194	49	-
<b>Total Cases</b>	<b>601</b>	<b>620</b>	<b>568</b>	<b>558</b>

Table 3.15 Disposition of cases received (detailed)



## Significant Events

### **Analysis of Reports**

The FRA had a busy year with 980 reports to analyse in 2016/2017. These comprise the 601 new reports in 2016/2017, 301 reports carried over from 2015/2016 and the 78 carried over from 2014/2015. There were also 15 reports carried over from 2015/2016, 56 reports carried over from 2014/2015, 12 reports carried over from 2013/2014 and 1 report carried over from 2012/2013 that were previously analysed, but not completed and which required continuing analysis. The FRA staff analysed 404 of the 980 reports for a combined average of 34 reports per month.

A total of 398 reports were closed in 2016/2017 (203 reports from 2016/2017, 125 reports carried over from 2015/2016, 64 reports carried over from 2014/2015 and 6 reports carried over from 2013/2014), an average of 33 reports completed per month.

### **The Egmont Group Meetings**

The FRA participated in the Intercessional Meeting of the Egmont Group held in Doha, Qatar from 29<sup>th</sup> January – 2<sup>nd</sup> February 2017, during which the challenges faced by FIUs in combatting money laundering, associated predicate offences and terrorist financing, especially in the areas of international cooperation and information sharing were discussed. The meetings were attended by 315 participants, representing 115 FIUs, 10 observer organisations and 6 international partners.

During the meetings the Heads of FIUs approved a number of matters, including a white paper on the Utility of Cross-border Wire Transfer Reporting, two reports on the ISIL Project Phase 2: a financial typology of foreign terrorist fighters and information sharing challenges involving FIUs, and a report on Business Email Compromise.

The Egmont Group also launched an E-learning Tool for Operational Analysis, which was developed in partnership with the Basel Institute International Centre for Asset Recovery.

The FIUs of Cape Verde and Kosovo were endorsed as new members of the Egmont Group by the Heads of FIUs during the meeting.

### **The CFATF Plenary Meetings**

The FRA participated in the 44<sup>th</sup> CFATF Plenary Meeting in Providenciales, Turks and Caicos Islands from 7<sup>th</sup> – 10<sup>th</sup> November 2016 and in the 45<sup>th</sup> CFATF Plenary Meeting in Port of Spain, Trinidad from 28<sup>th</sup> May – 1<sup>st</sup> June 2017. The focus for the FRA is the Heads of FIU (“HFIU”) meeting that takes place at the plenary.

At the 25<sup>th</sup> HFIU meeting in Turks and Caicos it was agreed that HFIUs would meet on the Sunday before plenary in order to be able to attend future meetings of the Working Group on FATF Issues (“WGFI”) that takes place during plenary. Given the important roles that FIUs play in the mutual evaluation process, their input was imperative to discussion at

WGFI meetings. Another key discussion was the evolving role of FIUs, as they are being tasked with additional responsibilities outside of their traditional core responsibilities surrounding SARs, including AML supervision of some DNFBPs sectors and implementation of targeted financial sanctions relating to terrorist and proliferation financing.

The Regional Representative for the Egmont Group presented on Egmont's membership procedures, the main requirements for membership and the stages that various regional FIUs were at in their membership application. FIUs that are Egmont members were encouraged to sponsor and support their regional counterparts that were not yet members.

At the 44<sup>th</sup> Plenary the 4<sup>th</sup> Round MER for Jamaica was debated and approved.

At the 26<sup>th</sup> HFIU meeting in Trinidad, the FATF paper regarding a change to the methodology in relation to reporting suspicious transactions promptly was discussed. The discussion centred on what promptly means and the obligation in each jurisdiction's legislation: some jurisdictions have a time frame within which a SAR must be filed, while others have language such as soon as practicable, forthwith or without delay. It was agreed that the matter needed to be monitored and jurisdictions may need to consider legislative changes in order to be compliant.

Initiatives from the United Kingdom regarding Beneficial Ownership were discussed with

updates provided by a number of British Overseas Territories of developments in their jurisdictions.

FIU Trinidad and Tobago presented on a Terrorist Financing Handbook they had developed.

The Regional Representative for the Egmont Group presented on the status of membership applications for various regional FIUs. Also of note was that new representatives for the Americas Region would be elected at the Egmont Plenary in July 2017.

At the 45<sup>th</sup> Plenary the 4<sup>th</sup> Round MER for The Bahamas was debated and approved.

#### **Results of Disclosures of Information**

Correspondences between officers of the Royal Cayman Islands Police Financial Crime Unit and FRA staff revealed that several disclosures made by the FRA have assisted in ongoing investigations and initiated new investigations.

The FRA also provided assistance to law enforcement by responding to requests from them with any relevant information held by the FRA. Some of these cases also involved the FRA requesting information from overseas FIUs on behalf of the local law enforcement agency.

The very nature of a criminal investigation can sometimes mean that detailed feedback is not always forthcoming. The FRA and its law enforcement partners continue to look at

improving the feedback provided to reporting entities.

The FRA continues to make regular disclosures regarding fraudulent schemes to allow law enforcement to update its database of those schemes.

### **Industry Presentations**

Throughout the year the FRA made presentations at industry association organised events, as well as to local businesses at their request, on their obligations under the PCL and the work of the FRA. These presentations will continue during 2017/2018.

## **IV. SCENARIOS THAT WOULD TRIGGER FILING OF A SUSPICIOUS ACTIVITY REPORT (TYPOLOGIES)**

The following is a compilation of sanitised cases that were analysed and completed during the Financial Year that we believe illustrate some of the key threats facing the jurisdiction in the fight against money laundering and terrorist financing. These cases have been identified by the primary typology involved, though some of them may involve more than one typology. They are being included here for learning purposes and as a feedback tool for our partners in the fight against money laundering and terrorist financing.

### **1. Overseas Bribery / Corruption**

Several Cayman Islands financial service providers filed reports regarding an international conglomerate (“IC”), that had been a client for several years, after information became publicly available that the IC had engaged in corrupt practices for a number of years. Investigations in multiple jurisdictions allege fraud, overpricing contracts and that the IC used offshore companies to pay bribes in order to obtain contracts.

The reports disclosed information about Cayman Islands entities ultimately owned and controlled by the IC, as well as the ownership structure of such entities and their private banking activities. The profile of the entities

identified in the reports raised the possibility that they could have been indirectly involved in the allegations against the IC.

Disclosures were made to the Royal Cayman Islands Police Service Financial Crimes Unit and to FIUs in jurisdictions with relevant investigations or proceedings.

Indicators:

- Use of legitimate business to conceal illicit activity
- Adverse information about the client

### **2. Overseas Fraud / Corruption**

A Cayman Islands Corporate Services Provider (“CSP”) acts as the registered office for a number of Cayman Islands entities that were established by a foreign sovereign investment fund and thus gave an appearance of a reputable business. One of those entities is a Limited Partnership that involves numerous other investors with multiple or complex layers of ownership. Adverse information about the ultimate beneficial owner of an investor in the Limited Partnership raised suspicions that the Cayman Islands entities may be holding criminal property.

The publicly available information indicated that the ultimate beneficial owner was being investigated in his home country and in other jurisdictions for an international conspiracy to launder funds misappropriated from another sovereign investment fund. Further research by the FRA identified that the Limited Partnership and the investor had been

identified as the owners of assets subject to a civil forfeiture complaint in an overseas jurisdiction. The civil forfeiture complaint sought the recovery of assets associated with an international conspiracy to launder funds misappropriated from another sovereign investment fund.

While the SAR did not identify any funds actually being received into a Cayman Islands bank account, the ownership information disclosed in the SAR, together with the activities described in the civil forfeiture complaint, was indicative that the funds invested into the Limited Partnership are proceeds of the alleged diversion of funds and appear to be criminal property.

Disclosures were made to the Royal Cayman Islands Police Service Financial Crimes Unit and to FIUs in several jurisdictions with relevant ongoing investigations or proceedings.

Indicators:

- Use of legitimate business to conceal illicit activity
- Multiple or complex layers of ownership
- Adverse information about a beneficial owner

### 3. Overseas Fraud

A foreign national from Jurisdiction A established a trust relationship and two custody accounts with a Cayman Islands financial service provider ("the FSP"). The foreign national together with his spouse were

the signatories of the two custody accounts. The purpose of the trust was to hold real estate and liquid investments. The foreign national was the co-owner and Chief Executive Officer of a media conglomerate in Jurisdiction A.

A year after the accounts were established the name of the foreign national came up in the FSP's transaction alert system a number of times. Among those alerts was an investigation in Jurisdiction A for money laundering, and art and antiquities smuggling.

The FSP's review of the custody accounts revealed incoming funds from auction houses in Jurisdiction B and an unusual payment to a third party account in Jurisdiction A.

Disclosures were made to the Royal Cayman Islands Police Financial Crime Unit and to the FIU in Jurisdiction A.

Indicators:

- Adverse information about the client
- Transactions that appear to be related to the adverse information
- Unusual payment to a third party account

### 4. Debt Collection Scam

A Cayman Islands Law Firm received email correspondences from a person from Jurisdiction A requesting assistance in collection of an outstanding debt from an individual purported to reside in the Cayman

Islands. The potential client was informed of the need to perform conflict checks, obtain due diligence and provide an initial retainer. An engagement letter and the standard terms and conditions were emailed to the potential client.

A signed copy of the engagement letter together with a copy of the potential client's passport was returned. The passport from Jurisdiction A raised concerns as it appeared to have been tampered with.

Prior to any substantial work being completed or a letter being sent to him, the debtor corresponded with the Law Firm and advised that he would make a partial payment in a couple of days. A few days later, again without any correspondence from the Law Firm, the debtor informed the Law Firm that he had sent a cashier's cheque payable to the attorneys for a portion of the amount payable.

Before the cashier's cheque was received, the Law Firm informed the client that it would not facilitate the transfer of the funds without complete due diligence being received and the initial retainer being provided. Further correspondences ceased afterwards.

The immediate turnaround of the debtor, the use of a passport that appeared to have been tampered with and the ceasing of any further

correspondence led to suspicions that this was some form of debt collection scam.

Disclosures were made to the Royal Cayman Islands Police Financial Crime Unit and to the FIU in Jurisdiction A.

Indicators:

- Unsolicited request to assist in debt collection
- Tampered identification documents
- Immediate unsolicited response (prior to any substantial work being completed) from debtor and partial payment of outstanding debt
- Use of cashiers or overseas cheque

## 5. Business Email Compromise Fraud

A Cayman Islands Trust Company received an email that appeared to be from the beneficiary of a trust requesting a distribution of Amount X from the trust to settle an invoice.

The request initially asked for the distribution to be paid to an account in the name of a company with an address in Jurisdiction A. When the Trust Company asked for due diligence information, the request was revised instructing the funds to be sent to an account in Jurisdiction B. Again full due diligence was requested; however, the requesting party said due diligence would be provided once the funds were transferred as time was of the essence.

Subsequently, a request was made to have the funds wired to an account with a bank in Jurisdiction A in the name of the protector of the trust. Based on the Trust Company's records, the protector and beneficiary of the trust are based in Jurisdiction C.

The Trust Company contacted the protector of the trust using the telephone number provided in the email instructions and became doubtful about the claims of the person they had spoken to. A second phone call was made to the beneficiary of the trust using the contact information in the Trust Company's records, which confirmed that the instructions were fraudulent.

Disclosures were made to the Royal Cayman Islands Police Financial Crime Unit, the Cayman Islands Monetary Authority and to the FIU in Jurisdiction A.

Indicators:

- Email request for fund transfers to a new account (inconsistent with previous transfers)
- Evasiveness to provide due diligence information, coupled with urgency of the transaction
- Use of new or different contact information

## 6. Overpayment Scam / Fraudulent Cheque

An enquiry was received by a Cayman Islands property management company through their vacation rental booking site from a potential customer (purporting to be a national of and

residing in Jurisdiction A) regarding a rental property in the Cayman Islands. The potential customer requested to book the property for an entire month and after completing the required forms advised that his lawyers would be sending the funds. The potential customer subsequently confirmed the expected date the funds would be received.

A few days later the potential customer informed the property management company that an error was made in the remittance and the amount paid was ten-times the amount due (Amount X). The potential customer asked the property management company to check their accounts and advised that he would be providing wire details for the return of the difference.

The property management company noted that it received approximately the equivalent of Amount X and advised its bank to return the wire transfer to the sender.

A review by the bank noted that a wire transfer was not received and instead a cashier's cheque drawn on a bank in Jurisdiction A for approximately the equivalent of Amount X was being processed. The Bank's Treasury team noted that alterations had been made to the cheque and it was returned. As a result of the bank's review, no money was transferred.

Disclosures were made to the Royal Cayman Islands Police Financial Crime Unit and to the FIU in Jurisdiction A.

Indicators:

- Atypical or uneconomical fund transfer to or from foreign jurisdiction
- Use of forgery/alterations
- Inconsistent information being provided

## 7. Employment Scam

A money transmitter noted that a customer received multiple transfers of the same amount from different individuals from Jurisdiction A. A few days later the customer remitted the total amount received to a different individual in Jurisdiction A.

The money transmitter, having concerns that this could be a money flipping scam involving promises of employment in Grand Cayman blocked any further transactions of the customer and filed the report.

Analysis by the FRA revealed that none of the remitters or the subsequent recipient of the funds have been in the Cayman Islands. Neither the customer's employment nor nationality appeared to have any connections to the remitters and raised further concerns that the customer may be carrying out the transactions on behalf of the ultimate recipient of the remittances.

Disclosures were made to the Royal Cayman Islands Police Financial Crime Unit and to the FIU in Jurisdiction A.

Indicators:

- multiple transfers of the same amount from different individuals from an overseas jurisdiction and subsequent outgoing remittance to single recipient
- neither recipient of funds appeared to have any known association with the remitters

These examples are based on actual information we have received and sanitised to protect the identities of the individuals or entities concerned.

Further typologies can be found at [www.Egmontgroup.org](http://www.Egmontgroup.org) or [www.FATF-GAFI.org](http://www.FATF-GAFI.org) or [www.cfatf-gafic.org](http://www.cfatf-gafic.org).



## V. STRATEGIC PRIORITIES: PERFORMANCE FOR 2016/2017 AND BUILDING ON STRENGTHS IN 2017/2018

The FRA plays a crucial role in the jurisdiction's fight against being used for money laundering, terrorist financing, proliferation financing and other financial crime. It is also a critical agency for the Cayman Islands to be able to demonstrate compliance with the FATF 40 Recommendations and prove effective implementation of said Recommendations.

### 2016/2017 Performance

Our main priorities during 2016/2017 were:

1. **Produce useful intelligence reports in a timely manner:** This priority was partially achieved given the resource constraints faced. Positive feedback was received from local law enforcement agencies, CIMA and overseas FIUs regarding the usefulness of disclosures by the FRA. During the Financial Year regular meetings took place between the FRA and local agencies that receive its intelligence reports. With additional resources, which we hope to secure in late 2017 and early 2018, we anticipate an improvement in the timeliness of intelligence reports.
2. **Promote cooperative relationships with Reporting Entities:** This priority was achieved. Throughout the Financial

Year we maintained and developed cooperative working relationships with reporting entities. We also made presentations at industry association organised events, as well as to local businesses at their request. Late in the Financial Year we also initiated 'One-on-One' meetings with MLROs to give specific feedback on SAR quality and discuss other relevant matters.

3. **Readiness for the 4<sup>th</sup> Round Mutual Evaluation:** This priority was achieved, as the FRA delivered on all major deadlines during the Financial Year, including: reviewing and proposing changes to relevant legislation; preparing responses for the assigned FATF Recommendations for the Technical Compliance Questionnaire and Immediate Outcomes and contributing to the overall preparations for the jurisdiction's mutual evaluation.
4. **High Performing Staff:** This priority was achieved. Staff continue to produce high quality work under challenging circumstances. Throughout the year, staff completed 32 days of training through conferences, seminars, workshops and online courses, including in core areas such as Countering the Financing of Terrorism and Operational Analysis.
5. **Assess Existing Information Technology Infrastructure:** This priority was partially achieved. Robust measures remain in place to ensure a secure database that houses all SARs received from reporting entities. Progress is being made in

evaluating options to facilitate the electronic submission and storage of SARs, secure electronic communication with reporting entities and the provision of analytic tools to improve the research and analysis performed by staff to improve the financial intelligence reports we produce.

### **Strategic Priorities for 2017/2018**

During 2017/18 we will continue to build on our strengths and seek to continuously improve performance. Our main priorities for the year will remain unchanged, namely:

#### **1. Produce useful intelligence reports in a timely manner**

A key priority for the FRA is to provide timely and high quality financial intelligence to the RCIPS and other local law enforcement agencies, CIMA and overseas law enforcement agencies through their local FIU. Financial intelligence is critical to these entities in the fight against illicit activity.

Through its analysis of information collected under the PCL reporting requirements, the FRA aims to develop specific financial intelligence disclosures and provide strategic insights into trends and patterns of financial crime.

To deliver on this priority, we will:

- (i) Continue to periodically assess the intelligence reports we produce to ensure that they are useful to the recipients,

including meeting with local agencies regularly and obtaining formal feedback on the usefulness of our intelligence reports. Feedback will also be sought from overseas FIUs.

- (ii) Actively monitor the timeliness of our disclosures, with the aim of continuously improving disclosure times.
- (iii) Publish annually trends and patterns of financial crime impacting the Cayman Islands.

#### **2. Promote cooperative relationships with Reporting Entities**

The quality of our disclosures hinges directly on the quality of the SARs / information we receive. We are committed to developing and maintaining cooperative working relationships with all reporting entities, by encouraging an open line of communication to discuss matters of mutual interest, with a view to enhancing the quality of information we receive.

To deliver on this priority, we will:

- (i) Engage with reporting entities to foster improved quality of SARs.
- (ii) Correspond with reporting entities in a timely manner, both in acknowledging receipt of SARs and providing feedback on filings.

- (iii) Conduct regular (likely quarterly) presentations at industry association organised events, as well as to local businesses at their request on their obligations under the PCL and the work of the FRA.

### 3. Readiness for the 4<sup>th</sup> Round Mutual Evaluation

The FRA works with the AMLSG, the Inter-Agency Coordination Committee and divisions within the Cayman Islands Government to ensure robust AML/CFT legislation, policies and programmes are implemented in the Cayman Islands.

Reviews and evaluations by the CFATF are meant to assess a country's efforts in developing sound laws and regulations and implementing and enforcing them to protect the financial system from the threats of money laundering, terrorism financing and proliferation financing.

To deliver on this priority, we will:

- (i) Continue to contribute to the development and implementation of required legislation for the jurisdiction to be technically compliant with the FATF 40 Recommendations.
- (ii) Ensure that records, reports and publications that evidence the implementation and effectiveness of adopted laws

and regulations are prepared and maintained.

- (iii) Develop and implement procedures regarding targeted financial sanctions related to terrorism, terrorist financing, proliferation, proliferation financing and other restrictive measures related to AML / CFT / CFP, and monitoring compliance with regulations prescribing anti-terrorism financing and anti-proliferation financing measures.

### 4. High Performing Staff

The FRA seeks to promote and create a culture of excellence and integrity that inspires exceptional teamwork, service and performance. The development of staff is therefore critical to the effective operation of the FRA. By ensuring that staff are knowledgeable with developing issues in AML/CFT we will be able to provide the highest level of intelligence reports for use by the RCIPS and other local law enforcement agencies, CIMA and overseas FIUs.

To deliver on this priority, we will:

- (i) Provide training opportunities geared towards enhancing our ability to identify emerging trends and patterns used by criminal and terrorist organisations in money laundering, terrorist financing,

- proliferation financing and other financial crime.
- (ii) Define clear performance expectations and provide timely feedback.
  - (iii) Continue the process of improvement and encouraging innovation

#### **5. Assess Existing Information Technology Infrastructure**

Protecting information received from reporting entities is a critical function of the FRA and we are committed to maintaining a secure database that houses all SARs received from reporting entities. A layered approach to security has been adopted for the FRA's office and computer systems. Security measures include advanced firewalls to prevent unauthorised access to our database.

A robust IT infrastructure is paramount to the FRA operating efficiently. During 2018, we are aiming to upgrade our system to allow: secure submission and storage of SARs electronically; secure electronic communication with reporting entities; automatic population of the SAR database; and the provision of analytic tools to improve the research and analysis performed by staff to improve the financial intelligence reports we produce.

### Money Laundering

Money laundering is the process of making illegally-gained proceeds (i.e. "dirty money") appear legal (i.e. "clean"). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the "dirty money" appears "clean." Money laundering can facilitate crimes such as drug trafficking and terrorism, and can adversely impact the global economy.

**(Source: FinCEN website)**

### Terrorist Financing

"Simply, the financing of terrorism is the financial support, in any form, of terrorism or of those who encourage, plan, or engage in it. Some international experts on money laundering continue to find that there is little difference in the methods used by terrorist groups or criminal organizations in attempting to conceal their proceeds by moving them through national and international financial systems."

**(Source: 2005 Report of the United States Government**

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