



FINANCIAL
REPORTING AUTHORITY
CAYMAN ISLANDS GOVERNMENT

PORTFOLIO OF LEGAL AFFAIRS

Annual Report

1 January - 31 December 2018



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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 2018 financial year (“the Reporting Period”), which marks the sixteenth reporting period for the FRA.

As an administrative financial intelligence unit, the FRA is responsible for receiving, requesting, analyzing and disseminating financial information disclosures concerning proceeds of criminal conduct or suspected proceeds of criminal conduct. Domestically, the investigation of financial crime and associated offences falls under the ambit of local law enforcement agencies.

The FRA received 935 suspicious activity reports (“SARs”) during the Reporting Period, compared with 868 in calendar year 2017. Of note in December 2017, there was a “one-off” event that accounted for the majority of the 220 SARs submitted that month; there was no such “one-off” event in 2018. If the 2017 SAR numbers were normalised to discount the “one-off” event, the 2018 SAR filings would represent around a 30% increase to 2017.

SARs were received from 179 different reporting entities, not including the 40 overseas Financial Intelligence Units (“FIUs”) that voluntarily disclosed information to, or requested information from, the FRA.

During the Reporting Period the FRA performed initial analysis on 719 SARs. It also issued 309 directives pursuant to section 4(2)(c) of the Proceeds of Crime Law to clarify or amplify information received. The FRA also made 55 requests for information to overseas FIUs to either further its analysis, or assist local law enforcement agencies with investigations.

The FRA closed 602 SARs during the Reporting Period, resulting in 283 disclosures to local law enforcement agencies or competent authorities, and 206 disclosures to overseas financial intelligence units.

A detailed breakdown of the cases that were analysed and closed, along with details of the disclosures made by the FRA are detailed in Section III of this annual report.

Three Financial Analysts (“FA”) joined the FRA during 2018; two new FAs and an internal staff member who was seconded to the analysis team. These additional resources account for the increase in cases analysed and closed.

Senior FRA staff spent significant time during the Reporting Period dealing with the jurisdiction’s 4th Round Mutual Evaluation by the Caribbean Financial Action Task Force (“CFATF”). The key activities included: reviewing and proposing changes to relevant legislation, responding to several iterations of the draft Mutual Evaluation Report (“MER”), preparing and participating in teleconference calls and face-to-face meetings with the CFATF Assessors and representing the jurisdiction during the debate of the MER at the 48th CFATF Plenary in November 2018. The FRA remains committed to addressing the recommended actions detailed in the MER.

The FRA’s Sanctions Coordinator, in conjunction with the Foreign and Commonwealth Office (“FCO”) and the UK Office of Financial Sanctions Implementation (“OFSI”), delivered Financial Sanctions Training on island in July 2018. Seventy (70) persons from thirteen Ministries / Portfolios / Agencies / Department attended, along with six (6) representatives from various Agencies in the BVI. Special thanks to the FCO and OFSI for their contributions to a very successful training event.

The Reporting Period was particularly challenging, given the continued increase in the number of SARs received and the ongoing responsibilities of the 4th Round Mutual Evaluation process. I would like to recognize and express appreciation to my staff for their continued commitment to the FRA becoming a ‘world-class’ financial intelligence unit and the passion they have for their work.

RJ Berry
Director

2018 – HIGHLIGHTS

<u>FINANCIAL INTELLIGENCE DISCLOSURES</u>		
283 Domestic Disclosures Made		
Top 3 Recipients of financial intelligence disclosures		
<u>RCIP-FCU</u>	<u>CIMA</u>	<u>IMMIGRATION</u>
178	73	16
<u>Financial Sanctions Implementation</u>		
102 Financial Sanctions notices published on website		
CULTURE OF COMPLIANCE		
935 SARs received		
719 SAR analysis initiated		
602 SAR analysis completed		
GLOBAL CONTRIBUTION		
95 Inquiries received from foreign counterparts		
55 Inquiries made to foreign counterparts		
206 Disclosures to Overseas FIUs		
TOP 3 RECIPIENTS OF OVERSEAS DISCLOSURES		
<u>FinCEN (US)</u>	<u>NCA – (UK)</u>	<u>COAF (Brazil)</u>
77	23	15

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 (2019 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.

In December 2018 the following amendments were made to the PCL: (i) consent from the Hon. Attorney General is no longer required for the FRA to disclose information to an overseas FIU where there is suspicion of criminal conduct; and (ii) the FRA is no longer required to consult with the Anti-Money Laundering Steering Group ("AMLSG") prior to entering into any agreement with an overseas FIU, but is to inform the AMLSG as soon as practicable that an agreement has been entered into.

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 (2018 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 2018 Revision includes 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 terrorist financing. The FRA has also assumed responsibilities for coordinating the implementation of targeted financial sanctions in relation to terrorist financing.

4. Anti-Corruption Law (2019 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 brought 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 coordinating the implementation of targeted financial sanctions in relation to proliferation financing.

6. The Anti-Money Laundering Regulations (2018 Revision) (“AMLRs”)

The AMLRs came into force on 2 October 2017 and repealed and replaced the Money Laundering Regulations (2015 Revision). They aligned the anti-money laundering framework in the Cayman Islands with FATF Recommendations.

Key changes include, but are not limited to:

- codification of a risk based approach to ML/TF;
- expansion of mandatory procedures in the areas of client identification and verification;
- expansion of enhanced due diligence processes and simplified due diligence measures;
- internal controls relating to auditing
- expanding requirements for communication procedures that are necessary for the ongoing monitoring of business relationships or one-off transactions;
- additional requirements with respect to Politically Exposed Persons (PEPs);

- new provisions regarding the shell banks and correspondent banks; and
- new provisions relating to internal and external reporting and the appointment of a money laundering reporting officer and a deputy money laundering reporting officer.

The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands (the GNs) were published on 13 December 2017. The GNs we last amended in November 2018).

II. THE FINANCIAL REPORTING AUTHORITY

1. BACKGROUND

The FRA, known to counterparts worldwide by its Egmont handle “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 12th 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 30th 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, 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.

The FRA is also responsible 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 Sanctions Coordinator 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. During the Reporting Period, the FRA produced an internal procedure manual and published industry guidance regarding the implementation of these targeted financial sanctions.

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 AMLSG, a body created by the same statute as the FRA. The AMLSG is chaired by the Hon. Attorney General and the membership comprises 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.

During 2018, the FRA staff comprised a Director, Legal Advisor, Sanctions Coordinator, Senior Accountant, two Senior Financial Analysts, 3 Financial Analysts and an Acting Financial Analyst, and an Acting Administrative Manager, all having suitable qualifications and experience necessary to

perform their work.

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.

During the Reporting Period, staff completed 56.5 days of training through local and overseas workshops and conferences, including Financial Sanctions Training presented by the UK Office of Financial Sanctions Implementation, AML/CFT Best Practices for Cryptocurrencies and Initial Coin Offerings, GCS Advisory’s 14th Annual Anti-Money Laundering / Compliance and Financial Crime Conference, Basic CFT Investigative Techniques Training presented by the World Bank, ACAMS 17th Annual AML & Financial Crime Conference and the Egmont Group’s Securing a Financial Intelligence Unit.

FRA Staff also participated in and gained valuable experience from the 37 days spent representing the FRA at the 47th CFATF Plenary, Egmont Working Group Meetings, the 25th Plenary of the Egmont Group of Financial Intelligence Units, the 48th CFATF Plenary, 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 shaped directly by the quality of reports it receives from financial service providers and other reporting entities. If reporting entities 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 (2018) comprises 159 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, Plenaries 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 their 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 Reporting Period; however, it has signed and exchanged MOUs with the following 19 FIUs as of 31 December 2018: 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 RCIPS in December 2017, and previously entered into MOUs with the ACC in April 2017 and CIMA in 2004.

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.

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, 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 4th 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 Albania, Andorra, Antigua & Barbuda, Armenia, Australia, Austria, Bahamas, Bahrain, Bangladesh, Barbados, Belgium, Bhutan, Botswana, Cambodia, Canada, Colombia, Cook Islands, Costa Rica, Cuba, Denmark, Dominican Republic, Ethiopia, Fiji, Ghana, Guatemala, Honduras, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Italy, Jamaica, Kyrgyzstan, Latvia, Lithuania, Macao SAR, Madagascar, Malaysia, Mauritania, Mauritius, Mexico, Mongolia, Myanmar, Nicaragua, Norway, Palau, Panama, Peru, Portugal, Samoa, Saudi Arabia, Serbia, Seychelles, Singapore, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Uganda, Ukraine, United Kingdom, 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's SAR database.

During the Reporting Period, the FRA received SARs from 179 different reporting entities. This number excludes the 40 overseas FIUs that voluntarily disclosed information or requested information from the FRA. SARs received from the 179 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 167 in 2017 to 179 in 2018. 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	379
Fiduciary services	127
Insurance services	32
Investment funds and fund Administrators	69
Money transmitters	95
Securities investment businesses	27
DNFBPs	47
Requests for Information – Domestic	18
Disclosures & Requests for Information – Overseas	133
CIMA	8
Total No of Cases	935

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 2014/2015. The FRA received 935 new cases during the Reporting Period. 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 continued vigilance of reporting entities against money laundering and terrorist financing.

The average number of reports received per month in 2018 was 78, compared to 72 reports per month in 2017. In December 2017, the FRA received 220 reports in a 'one-off' event. Excluding this one-off event the average number of reports received per month over the previous 35 months (Jan 2015 – Nov 2017) was 55. Chart 3.2 on the next page has been revised to show SARs received from January to December. In prior years it reflected the reporting period that ran from July to June.

A total of 2,392 subjects were identified in SARs (see Chart 3.3 on page 19), comprising 1,358 natural persons and 1,034 legal entities. 77 natural persons and 37 legal entities were 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 478, comprising 233 natural persons and 245 legal entities.

The number of subjects whose nationality or country of incorporation is not identified declines from 478 to 204 when subjects from overseas request for information and cases from money transmitters are excluded. Several cases from money transmitters and overseas FIUs failed to identify the subject's nationality or jurisdiction of incorporation.

Charts 3.1 and 3.2 on the next page do not include SARs received during the Reporting Period 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 natural persons and legal entities identified as subjects of SARs in Chart 3.3 on page 19.

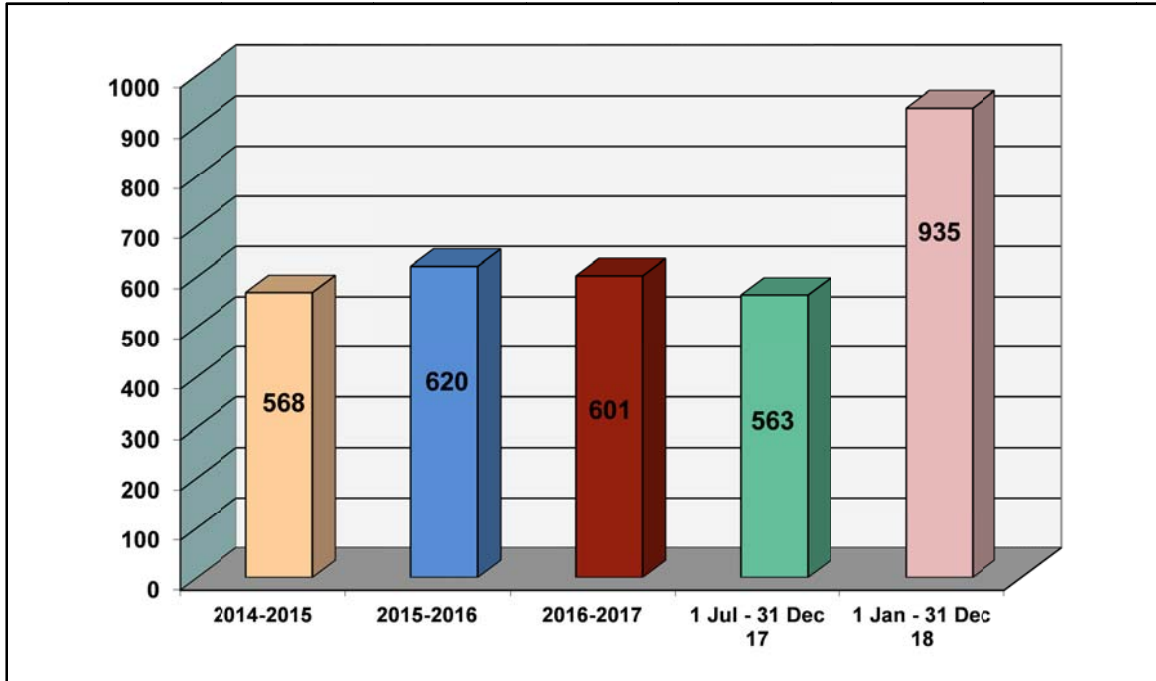


Chart 3.1: Total cases by financial year / Reporting Period

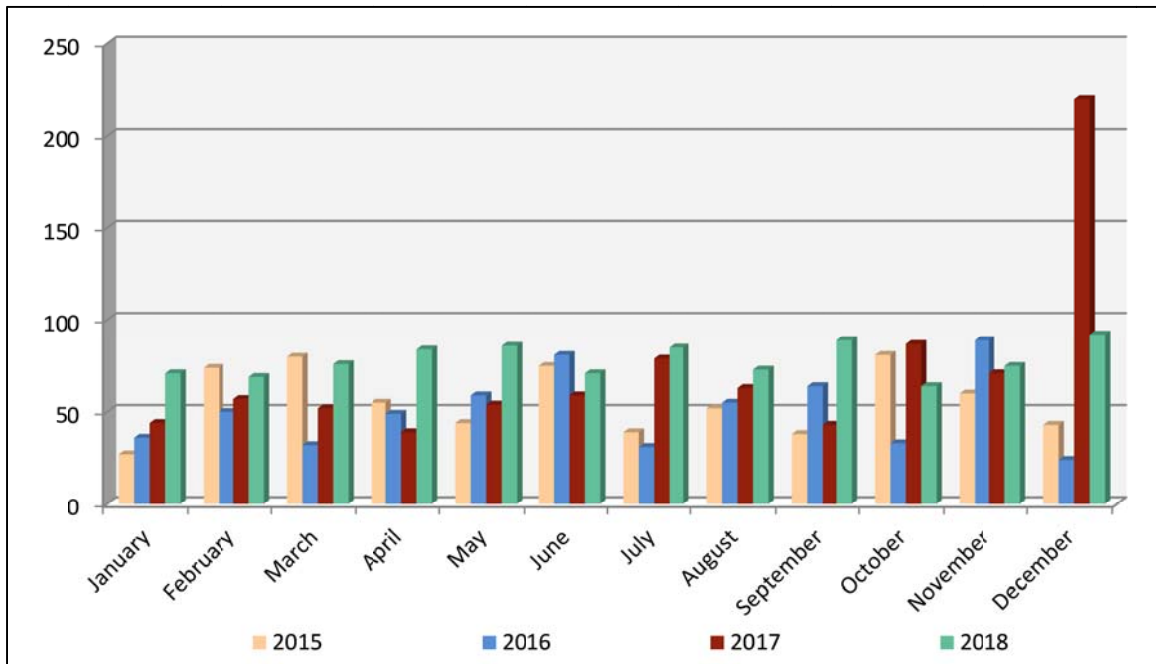


Chart 3.2: Comparison of monthly cases received

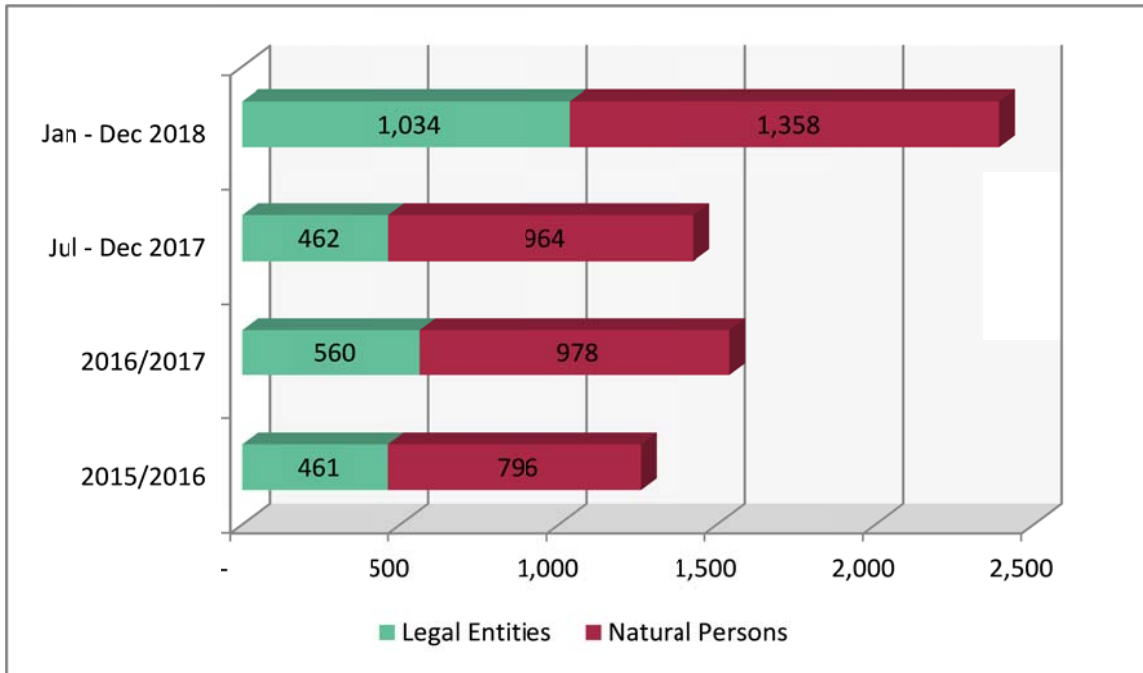


Chart 3.3: Number of subjects by financial year / Reporting Period

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 107 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, totaling 494; 105 were Caymanian nationals (natural persons) and 389 were legal entities established in the Cayman Islands. The

second largest nationality of subjects was the United States with 200, comprising 143 natural persons and 57 legal entities, followed by: The Russian Federation with 113, 109 natural persons and 4 legal entities; the United Kingdom with 90, 66 natural persons and 24 legal entities; and Canada with 71, 64 natural persons and 7 legal entities. Together these five countries account for 968 subjects, which represents 40% of the total.

Argentina, Brazil, the British Virgin Islands, Hong Kong, India, Jamaica, Panama, People’s Republic of China, Peru, Philippines, Spain, Uzbekistan and Venezuela are the countries with 20 or more subjects.

Australia, Bahamas, Chile, Colombia, Costa Rica, Curacao, Cyprus, Denmark, Ecuador,

France, Guatemala, Isle of Man, Italy, Malaysia, Malta, Mexico, Mongolia, Netherlands, Saudi Arabia, South Korea, St. Kitts & Nevis, Switzerland, Taiwan and Uruguay are the countries with 5 to 19 subjects.

The category “Others” in the Chart 3.4 is comprised of subjects from Angola, Antigua and Barbuda, Armenia, Austria, Azerbaijan, Bangladesh, Barbados, Belize, Bermuda, Comoro Islands, Croatia, Cuba, Czech Republic, Democratic Republic of Congo, Dominican Republic, Egypt, El Salvador, Germany, Ghana, Gibraltar, Greece, Guernsey, Guyana, Haiti, Honduras, Indonesia, Iran, Ireland, Japan, Jersey, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macedonia, Maldives, Marshall Islands, Mauritius, Montenegro, Nepal, New Zealand, Nicaragua, Norway, Pakistan, Paraguay, Poland, Portugal, Qatar, Seychelles, Singapore, Slovakia, South Africa, Sri Lanka, St. Vincent and the Grenadines, Sweden, Thailand, Trinidad & Tobago, Turkey, United Arab Emirates, Vanuatu and Yemen.

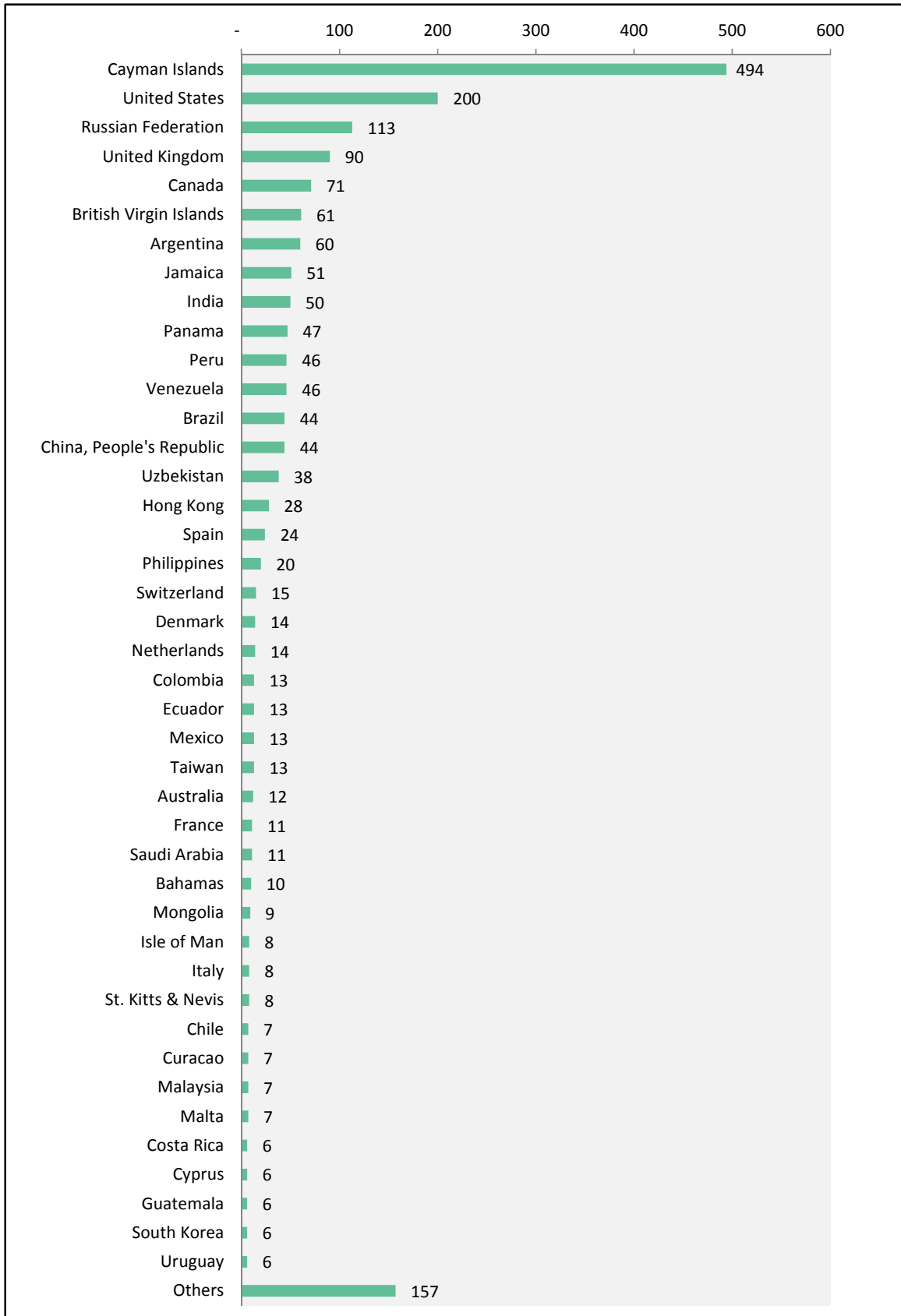


Chart 3.4: Countries of subjects in SARs reported in the Reporting Period

Sources of Cases

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

- Banks - 379
- Overseas Financial Intelligence Units – 133
- Money Transmitters – 95
- Company Managers / Corporate Service Providers – 70
- Trust Companies – 57

Banks continue to be the largest source of SARs, with 379 reports filed by 29 banks, comprising: 298 cases filed by 8 Class A banks; 80 cases filed by 21 Class B banks; and 1 case filed by a Credit Union. This compares to 408 reports filed by 30 banks during 2017, comprising: 344 cases filed by 9 Class A banks; 63 cases filed by 19 Class B banks; and 1 case filed by a Credit Union.

Money Transmitters filed 95 SARs during the Reporting Period, compared to 86 SARs during 2017.

Trust Businesses and Company Managers / Corporate Service providers continue to be a significant source of SARs with a combined 127 SARs filed during the Reporting Period, compared to 114 in 2017.

Mutual Fund Administrators filed 52 SARs during the Reporting Period, compared to 41 in 2017.

The largest number of SARs received from DNFBPs came from law practitioners (17). Other DNFBPs filing SARs included: accounting professionals, real estate brokers pawnshops and dealers of high value goods.

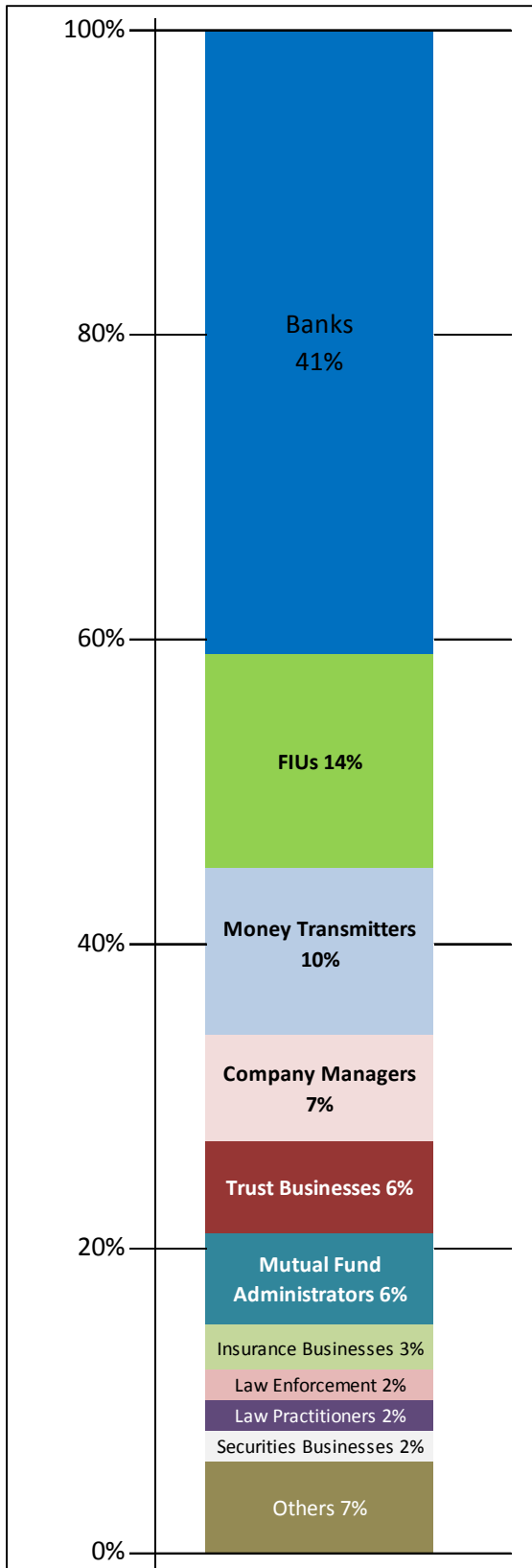


Chart 3.5: Sources of Cases

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 309 requests locally to clarify or amplify information received in 249 cases; 208 of these requests were to the SAR filer with the other 101 going to third parties. The majority of the information requested consisted of financial information, including account statements, and beneficial ownership. A total of fifty five (55) requests for information were made to thirty six (36) overseas FIUs in connection with forty one (41) cases; fifty four (54) requests were to Egmont member FIUs via the Egmont Secure Web, and one was made to a non-Egmont member. Eight (8) of those requests were made one behalf of local law enforcement. These requests greatly assisted the FRA in determining whether to make disclosures to local law enforcement, as well as to overseas FIUs, or to assist local law enforcement with their investigations. Chart 3.6 below shows the number of requests

made locally and overseas by financial year since 2015/16.

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.

Additionally, the provisions of section 4(2)(ca) of the PCL allow the FRA, in its discretion or upon request, to disclose information and the results of its analysis to local law enforcement, CIMA and any public body to whom the Cabinet has assigned the responsibility of monitoring AML, in cases where the threshold of suspicion of criminal conduct has not been met.

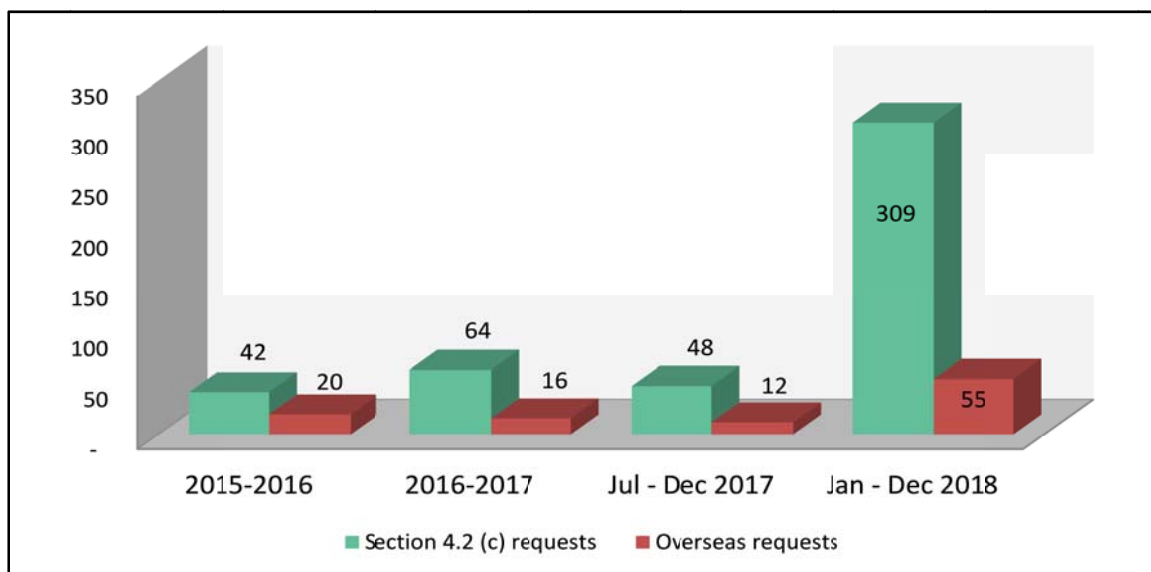


Chart 3.6: Number of request made locally and overseas

SARs Trend Analysis

The five most common reasons for filing reports during the Reporting Period were:

- suspicious financial activity – 293
- fraud – 240
- corruption – 109
- money laundering – 82
- tax evasion - 61

Table 3.7 below provides a detailed breakdown of the reasons for suspicion.

Reason	%
Suspicious Activity	31%
Fraud	26%
Corruption	12%
Money Laundering	9%
Tax Evasion	7%
Declined Business	4%
OFAC / Sanctions	3%
Regulatory Matters	2%
Drug Trafficking	2%
Others	4%
Total	100%

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.

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) **72 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.
- b) **71 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.
- c) **70 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) **40 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.

- e) **32 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.
- f) **8 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.

Fraud

Fraud was 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 2018 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.

Business Email Compromise (BEC) frauds, a form of account takeover scheme, is where a compromised or spoofed email account is used by fraudsters to issue fraudulent payment instructions to transfer money from bank accounts continue to be a serious concern and threat. Based on SARs received in 2018, US\$2.9 million was lost to these schemes and a further US\$3.2 million had been attempted, but was prevented by mitigating procedures.

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 were made to appear similar to those of the legitimate users.

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.

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 Reporting Period 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

Suspicious 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 also identified subjects absconding with investor funds.

The FRA continues to receive SARs from money service business 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 decreased; however, such types of fraud continue to occur,

albeit less frequently, 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

The ACL, as well as global benchmarks in anti-bribery legislation like the UK's Bribery Act 2010 and the US Foreign Corrupt Practices Act (“FCPA”) continue to keep the focus of bribery and corruption firmly into the minds of those operating businesses in the Cayman Islands.

The Lava Jato investigation in Brazil and other major cases have exposed the networks of corruption that connect elites at the highest levels of government and business—including transnationally—and the degree to which policy and politics have been merged in a form of state capture¹. As the network of these individuals and companies were exposed, reporting entities have reviewed their accounts, heightened the monitoring and scrutiny of transactions that are linked to accounts identified and have reported activities that appear unusual. This has led to an increase in SARs that identify foreign corruption as the primary suspicion.

¹ Report of the Expert Advisory Group on Anti-Corruption, Transparency, and Integrity in Latin America and the Caribbean, p4, available at <https://publications.iadb.org>

Reporting entities have also been reporting associations of accounts maintained with them that are linked to those individuals and companies that are either under investigation or have been charged for corruption overseas.

During the Reporting Period reports that identified foreign corruption included those involving entities whose beneficial owners, or related parties, are linked to overseas or local corruption investigations.

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.

Close to half of the SARs held in this category

are requests for information from overseas FIUs and local law enforcement pertaining to money laundering investigations. Most of these requests for information, particularly those from FIUs cite money laundering as the offence under investigation.

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 circumvent money laundering guidelines.

Tax Evasion

Section 247A of the Penal Code (2017 Revision) became effective 1 December 2017, implementing the requirement under FATF Recommendation 3 to include tax crimes as a predicate offence for money laundering. The amendment to the Penal Code makes certain acts or omissions, when done with the intent to defraud the government, an offence 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>

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.

Pursuant to section 138 of PCL, financial intelligence is disclosed to the following designated agencies where the required statutory threshold, suspicion of criminal conduct, has been met:

- Local law enforcement agencies in the Cayman Islands.
- CIMA, DITC and any public body to whom the Cabinet has assigned the responsibility of monitoring compliance with money launder regulations under section 4(9) of the PCL.
- Overseas financial intelligence units, with the consent of the Hon. 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.

The PCL was amended in December 2017, section 4(2)(ca), to allow the FRA to disseminate, in its discretion or upon request, information and results of any analysis to the CIMA, any public body to whom the Cabinet has assigned the responsibility of monitoring compliance with money laundering regulations under section 4(9) of PCL, and any law enforcement agency within the Islands. A further amendment was made to the PCL in December 2018 removing the requirement to obtain the consent of the Hon. Attorney General for the FRA to disseminate information to an overseas FIU.

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 SAR database, prior cases may be re-evaluated with the receipt of new information.

During the Reporting Period, the FRA received 935 new reports. The FRA completed the review of 371 of these reports, leaving 564 in progress at 31 December 2018. Of the 371 new reports analysed, 194 resulted in a disclosure, 96 were deemed to require no further immediate action, 67 were replies to requests from FIUs and 14 were replies to requests from local agencies.

The FRA also completed analysis on 170 of 521 reports carried over from the interim period of 1-Jul-17 to 31-Dec-17, 36 of 349 cases carried over from 2016/17, 17 of 223 reports carried over from 2015/2016, 4 of 88

Disposition	No. of Cases					
	1 Jul – 31 Dec					
	2018	2017	2016-17	2015-16	2014-15	2013-14
Cases Analysed Requiring No Further Action	96	87	75	169	270	280
Cases Analysed that Resulted in a Disclosure	185	86	142	182	158	213
Reply to Domestic Requests	14	7	8	3	-	-
Reply to Overseas Requests	77 ²	32	63 ³	60 ⁴	56	63 ⁵
In Progress (as at 31 December 2018)	563	351	313	206	84	2
Total Cases	935	563	601	620	568	558

Table 3.8 Disposition of reports received as at 31 December 2018

reports carried over from 2014/2015, and 4 of 6 reports carried over from 2013/2014, a total of 231 reports. Of the 231 previous reports that were completed, 99 were deemed to require no further immediate action, 96 resulted in a disclosure, 330 were replies to requests from FIUs and 3 were replies to a local request.

Table 3.8 shows the disposition of the reports for the past five reporting periods as at 31 December 2018.

As at 31 December 2018, the FRA had commenced initial analysis on 51 of 351 pending Jul – Dec 2017 cases, 42 of 313 pending 2016/2017 cases, 38 of 206 pending 2015/2016 cases, 43 of 84 pending 2014/2015 cases and 2 of 2 pending 2013/2014 cases. Those cases are

In varying stages of completion.

The total number of reports that resulted in voluntary disclosures during the reporting period was 281. These 281 reports comprise 185 reports from 2018, 66 reports from Jul – Dec 2017, 20 reports from 2016/2017, 9 reports carried over from 2015/2016 and 1 report 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 281 reports was disclosed in the manner shown in Table 3.9 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.

² Ten of these cases also resulted in disclosures, but are not included in the number of cases disclosed to avoid double counting.

³ Five of these cases also resulted in disclosures, but are not included in the number of cases disclosed to avoid double counting.

⁴ One of these cases also resulted in disclosures, but is not included in the number of cases disclosed to avoid double counting.

⁵ Two of these cases also resulted in disclosures, but are not included in the number of cases disclosed to avoid double counting

Recipient	Reporting Period					
	2018	2017	16-17	15-16	14-15	13-14
RCIPS	155	37	19	8	-	-
CIMA	77	36	7	5	-	-
Other LLEAs	21	6	4	2	-	-
Overseas FIUs	101	20	12	6	-	1

Table 3.9: Number of SARs that contributed to disclosures made during 2018

Financial Intelligence Disclosures

While some SARs have a direct and immediate impact on investigations both domestic and overseas, some are more useful when coupled with information available on other SARs, as well as law enforcement and regulatory publications. Both instances however assist in the production of financial intelligence.

The actual number of financial intelligence disclosures (i.e., the number of letters containing financial intelligence) is presented below.

Recipient	2018	2017 ⁶
RCIPS	178	39
CIMA	73	8
Immigration	16	1
Customs	2	-
Tax Information	1	-
ACC	12	2
Overseas FIUs	206 ⁷	39
Total	489	89

⁶ The FRA only started monitoring financial intelligence disclosures beginning July 1, 2017.

⁷ Includes 43 responses to 41 RFIs from overseas FIU that disclose substantial information.

The top 5 reasons for disclosures made to the RCIPS during the reporting period were:

- fraud – 46%
- corruption – 13%
- suspicious activity – 12%
- money laundering – 7%
- theft – 5%

The top 5 reasons for disclosures made to the Overseas FIUs during the reporting period were:

- fraud – 54%
- corruption – 21%
- money laundering – 6%
- drug trafficking – 5%
- illicit gaming – 5%

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 Reporting Period, the FRA made 163 voluntary disclosures to overseas FIUs from 100 reports completed. Those 100 reports comprise 70 reports from 2018, 18 reports from Jul - Dec 2017, 5 reports from 2016/2017, 6 reports carried over from 2015/2016 and 1 report carried over from 2013/2014.

The FRA also responded to 110 requests for information from overseas FIUs. We provided substantial information in 41 of those responses, while minimal or negative responses were provided in 69. Those reports comprise 77 reports from 2018, 20 reports

from Jul – Dec 2017, 11 reports carried over
from 2016/2017 and 2 reports carried over
from 2013/2014.

Chart 3.10 on the next page shows that those
voluntary disclosures and responses went to
66 different jurisdictions.

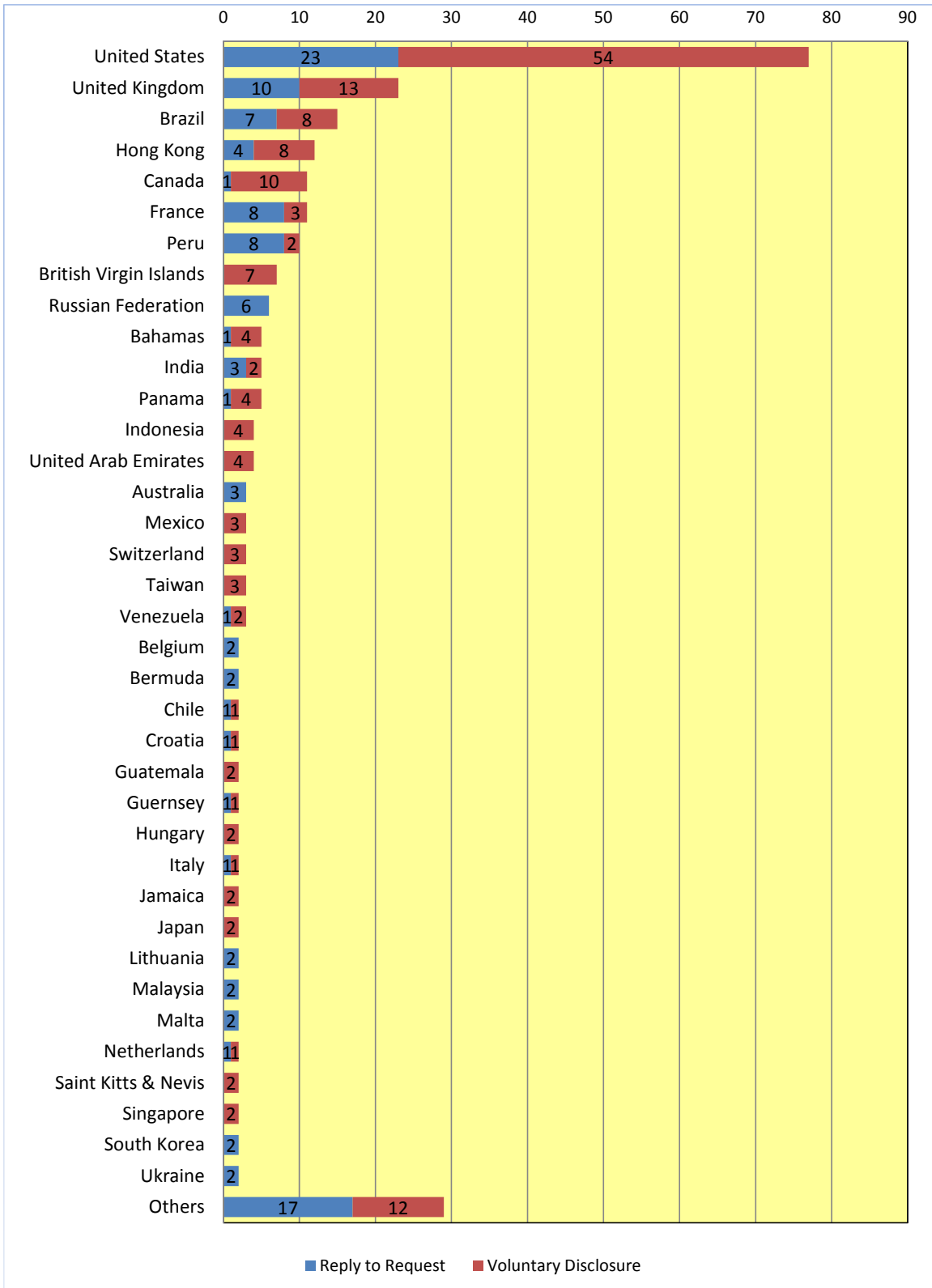


Chart 3.10: Overseas disclosures and replies to request for information

Disposition of Jul - Dec 2017 Reports Carried Over to Reporting Period

During the Reporting Period, 170 of the 521 reports carried over from Jul – Dec 2017 were completed: 82 reports were deemed to require no further action, 66 resulted in a disclosure, 20 were responses to a request from a FIU and 2 were a reply to domestic requests. Of the 66 reports that resulted in a disclosure,

information contained in those reports were disclosed to RCIPS (37 disclosures), to other local law enforcement agencies (6), to CIMA (36 disclosures) and to Overseas FIUs (30 disclosures).

The updated disposition of reports from Jul – Dec 2017 is as follows:

Disposition	Jul-Dec 2017 Cases Carried Over to 1-Jan-18	Jul-Dec 2017 Cases Analysed through 2017	Total
Cases Analysed Requiring No Further Action	82	5	87
Disclosed to ACC only	4	1	5
Disclosed to CIMA only	20	-	20
Disclosed to CIMA and RCIPS	4	1	5
Disclosed to CIMA, RCIPS and CI Immigration	-	-	-
Disclosed to CIMA, RCIPS and Overseas FIU	12	2	14
Disclosed to HM Customs only	-	-	-
Disclosed to RCIPS only	6	6	12
Disclosed to RCIPS and CI Immigration	1	-	1
Disclosed to RCIPS and HM Customs	-	-	-
Disclosed to RCIPS, CI Immigration and HM Customs	-	-	-
Disclosed to RCIPS and Overseas FIU	14	8	22
Disclosed to CI Immigration only	1	-	1
Disclosed to Overseas FIU only	4	2	6
Reply to Domestic Requests	2	5	7
Reply to Overseas Requests	20	12	32
In Progress as of 31 December 2017		521	521
Cases carried forward to 1 January 2018	(521)	-	(521)
In Progress as of 31 December 2018	351	-	351
Total Cases	-	563	563

Table 3.11: Disposition of cases carried over from 2017

Disposition of 2016/2017 Reports Carried Over to Reporting Period

During the Reporting Period, 36 of the 349 reports carried over from 2016/2017 were completed: 4 reports were deemed to require no further action, 20 resulted in a disclosure, 11 were responses to a request from a FIU and 1 was a reply to a domestic request. Of the 20 reports that resulted in a

disclosure, information contained in those reports were disclosed to the RCIPS (19 disclosures), to other local law enforcement agencies (2) to CIMA (9 disclosures) and to Overseas FIUs (12 disclosures).

The updated disposition of reports from 2016/2017 is as follows:

Disposition	2016-17 Cases Carried Over to 1-Jan-18	2016-17 Cases Analysed through 2017	Total
Cases Analysed Requiring No Further Action	4	71	75
Disclosed to CIMA only	-	9	9
Disclosed to CIMA and Overseas FIU	-	9	9
Disclosed to CIMA and RCIPS	1	7	8
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS and Overseas FIU	6	13	19
Disclosed to HM Customs only	-	-	-
Disclosed to RCIPS only	4	41	45
Disclosed to RCIPS and CI Immigration	-	4	4
Disclosed to RCIPS and HM Customs	-	1	1
Disclosed to RCIPS, CI Immigration and HM Customs	1	-	1
Disclosed to RCIPS and Overseas FIU	6	27	33
Disclosed to CI Immigration only	-	-	-
Disclosed to Overseas FIU only	2	10	12
Reply to Domestic Requests	1	7	8
Reply to Overseas Requests	8	50	58
Reply to Overseas Requests and Disclosed to Overseas FIU	-	1	1
Reply to Overseas Requests and Disclosed to RCIPS	1	1	2
Reply to Overseas Requests and Disclosed to CIMA and RCIPS	2	-	2
In Progress as of 31 December 2017		349	349
Cases carried forward to 1 January 2018	(349)	-	(349)
In Progress as of 31 December 2018	313	-	313
Total Cases	-	601	601

Table 3.11: Disposition of cases carried over from 2016/2017

Disposition of 2015/2016 Reports Carried Over to Reporting Period

17 of the 223 reports carried over from 2015/2016 were completed as follows: 8 reports were deemed to require no further action and 9 resulted in a disclosure. Of the 9 reports that resulted in a disclosure, information contained in those reports were

disclosed to the RCIPS (8 disclosures), to other local law enforcement agencies (2), to CIMA (5 disclosures) and to Overseas FIUs (6 disclosures).

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

Disposition	2015-16	2015-16	Total
	Cases Carried Over to 1-Jan-18	Cases Analysed through 2017	
Cases Analysed Requiring No Further Action	8	161	169
Disclosed to CIMA only	-	4	4
Disclosed to CIMA and Overseas FIU	-	3	3
Disclosed to CIMA and HM Customs	-	1	1
Disclosed to CIMA and RCIPS	1	15	16
Disclosed to CIMA, RCIPS and CI Immigration	2	1	3
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	2	2
Disclosed to CIMA, RCIPS and Overseas FIU	2	10	12
Disclosed to HM Customs only	-	2	2
Disclosed to RCIPS only	-	85	85
Disclosed to RCIPS and CI Immigration	-	16	16
Disclosed to RCIPS, CI Immigration and Overseas FIU	-	1	1
Disclosed to RCIPS and Overseas FIU	3	19	22
Disclosed to CI Immigration only	-	2	2
Disclosed to Overseas FIU only	1	12	13
Reply to Domestic Requests	-	3	3
Reply to Overseas Requests	-	59	59
Reply to Overseas Requests and Disclosed to RCIPS	-	1	1
In Progress as of 31 December 2017		223	223
Cases carried forward to 1 January 2018	(223)	-	(223)
In Progress as of 31 December 2018	206	-	206
Total Cases	-	620	620

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

Disposition of 2014/2015 Reports Carried Over to Reporting Period

4 of the 88 reports carried over from 2014/2015 were completed during the Reporting Period and were deemed to require no further action.

The updated disposition of reports from 2014/2015 is as follows:

Disposition	2014-15 Cases Carried Over to 1-Jan-18	2014-15 Cases Analysed through 2017	Total
Cases Analysed Requiring No Further Action	4	266	270
Disclosed to CIMA only	-	34	34
Disclosed to CIMA and Overseas FIU	-	3	3
Disclosed to CIMA and RCIPS	-	10	10
Disclosed to CIMA, RCIPS and CI Immigration	-	2	2
Disclosed to CIMA, RCIPS and Overseas FIU	-	10	10
Disclosed to RCIPS only	-	67	67
Disclosed to RCIPS and CI Immigration	-	7	7
Disclosed to RCIPS and Overseas FIU	-	10	10
Disclosed to CI Immigration only	-	1	1
Disclosed to Overseas FIU only	-	14	14
Reply to Overseas Requests	-	56	56
In Progress as of 31 December 2017		88	88
Cases carried forward to 1 January 2018	(88)		(88)
In Progress as of 31 December 2018	84		84
Total Cases	-	568	568

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

Disposition of 2013/2014 Reports Carried Over to Reporting Period

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

During 2018, the FRA also completed 4 of the 6 reports carried over from 2013/2014. Of the 4 reports completed: 1 was deemed to require no further action, 1 resulted in a disclosure to a FIU and 2 were responses to a request from a FIU.

Disposition	2013-14 Cases Carried Over to 1-Jan-18	2013-14 Cases Analysed through 2017	Total
Cases Analysed Requiring No Further Action	1	279	280
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	1	18	19
Disclosed to the Attorney General's Office	-	1	1
Reply to Overseas Requests	2	59	61
Reply to Overseas Requests, Disclosed to RCIPS	-	2	2
In Progress as of 31 December 2017		6	6
Cases carried forward to 1 January 2018	(6)		(6)
In Progress as of 31 December 2018	2		2
Total Cases	-	558	558

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

4. The Year in Review

Disposition	No. of Cases					
	1 Jul –					
	2018	2017	2016-17	2015-16	2014-15	2013-14
Cases Analysed Requiring No Further Action	96	87	75	169	270	280
Disclosed to ACC only	10	5	-	-	-	-
Disclosed to CIMA only	14	20	9	4	34	40
Disclosed to CIMA and Overseas FIU	3	-	9	3	3	-
Disclosed to CIMA and HM Customs	-	-	-	1	-	-
Disclosed to CIMA and RCIPS	14	5	8	16	10	19
Disclosed to CIMA, RCIPS and HM Customs	1	-	-	-	-	-
Disclosed to CIMA, RCIPS and CI Immigration	1	-	1	3	2	-
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	-	-	2	-	-
Disclosed to CIMA, RCIPS and Overseas FIU	43	14	19	12	10	12
Disclosed to HM Customs only	-	-	-	2	-	-
Disclosed to RCIPS only	38	12	45	85	67	73
Disclosed to RCIPS and CI Immigration	6	1	4	16	7	15
Disclosed to RCIPS and HM Customs	-	-	1	-	-	-
Disclosed to RCIPS, CI Immigration and HM Customs	-	-	1	-	-	2
Disclosed to RCIPS, DITC and Overseas FIU	1	-	-	-	-	-
Disclosed to RCIPS, CI Immigration, and Overseas FIU	1	-	-	1	-	-
Disclosed to RCIPS and Overseas FIU	41	22	33	22	10	28
Disclosed to CI Immigration only	1	1	-	2	1	4
Disclosed to Overseas FIU only	10	6	12	13	14	19
Disclosed to the Attorney General's Office	-	-	-	-	-	1
Reply to Domestic Requests	14	7	8	3	-	-
Reply to Overseas Requests	67	32	58	59	56	61
Reply to Overseas Requests, Disclosed to Overseas FIU	1	-	1	-	-	-
Reply to Overseas Requests, Disclosed to CIMA and RCIPS	1	-	2	-	-	-
Reply to Overseas Requests, Disclosed to RCIPS	8	-	2	1	-	2
In Progress – initial analysis completed	103	51	42	38	43	2
In Progress – initial analysis incomplete	461	300	271	168	41	-
Total Cases	935	563	601	620	568	558

Table 3.15 Disposition of cases received as at 31 December 2018 (detailed)

Significant Events

Analysis of Reports

The FRA had a busy year with 1,929 reports to analyse during the Reporting Period, comprising: 935 new reports, 469 reports carried over from Jul – Dec 2017, 291 reports carried over from 2016/2017, 190 carried over from 2015/2016, and 44 carried over from 2014/2015. There were also 193 reports that were initially analysed, but not completed as they required further analysis, comprising: 52 reports carried over from Jul – Dec 2017, 58 reports carried over from 2016/2017, 33 reports carried over from 2015/2016, 44 reports carried over from 2014/2015 and 6 reports carried over from 2013/2014.

The FRA staff analysed 719 of the 1,929 unanalysed reports, during the Reporting Period, comprising: 500 reports received during 2018, 169 reports carried over from Jul – Dec 2017, 24 reports carried over from 2016/2017, 23 reports carried over from 2015/2016 and 3 reports carried over from 2014/2015. An average of 60 reports were analysed per month.

A total of 602 reports were closed during the Reporting Period, comprising: 371 reports received during 2018, 170 reports carried over from Jul- Dec 2017, 36 reports carried over from 2016/2017, 17 reports carried over from 2015/2016, 4 reports carried over from 2014/2015 and 4 reports carried over from 2013/2014. On average, 50 reports were completed per month.

The Egmont Group Meetings

The FRA participated in the Egmont Working Groups, Regional, and Heads of FIUs Meetings, held in Buenos Aires, Argentina from 12th – 15th March 2018. The main topics of the meetings were the unique role of FIUs within the broader AML / CFT system in addressing the money laundering of the proceeds of corruption, and the importance of the autonomy of financial intelligence units in the fight against corruption.

The following are some of the initiatives adopted by the Heads of FIUs:

- Develop guidance on characteristics of an operationally autonomous and independent FIU.
- Work with FIUs and other stakeholders through the new Egmont Centre of FIUs' Excellence and Leadership (ECOFEL) to increase capacity building efforts focused on FIU autonomy and independence.
- Improve the practices and tools employed by FIUs to determine whether a case involves Political Exposed Persons (PEPs) and other high-risk categories related to corruption.
- Make use of the information exchange tools available for its members to better facilitate analysis in corruption cases and foster the trust between FIUs and other domestic and international partners.
- Strengthen FIUs' capacity to provide effective international cooperation in detecting, tracing, and identifying the laundered proceeds of corruption, for the

purpose of enabling timely provisional measures.

- Issue an updated list of indicators for identifying suspicious transactions and activities indicative of corruption.

The FRA attended and participated in the 25th Plenary of the Egmont Group of Financial Intelligence Units in Sydney, Australia from 24th – 27th September 2018 to advance work on FIU operational independence and autonomy and to identify the role public-private partnerships (“PPPs”) can play in the fight against money laundering and the financing of terror. The meetings were attended by 419 delegates (including 23 observer organisations and international partners).

Among the highlights of the plenary was the endorsement by the Heads of FIUs of a paper prepared by ECOFEL produced on FIU Operational Independence and Autonomy. The paper defines the characteristics of operational independence and autonomy and identifies the challenges FIUs may face.

Other highlights from the 25th Egmont Plenary included: (i) the endorsement of a new Strategic Plan that focuses on enhancing bilateral and multilateral exchanges of financial information between FIUs; (ii) four Operational Training Sessions focused on developing financial intelligence and analytics were also held. Topics covered Virtual Currency Regulation and Analysis, Cyber & Emerging Technologies, Professional Money

Laundering Networks, and FIU collaboration with Law Enforcement Agencies.

The FIUs of Azerbaijan, Benin, the Republic of Congo and Zambia were welcomed as new Egmont Group members following endorsement by the Heads of FIU during the meeting. The Heads of FIU concluded that legislative changes in Nigeria addressed the issues that led to its suspension in 2017 and lifted the suspension on FIU Nigeria. Egmont Membership now stands at a total of 159 FIUs. The Heads of FIU also decided to suspend UIF El Salvador due to a continuous lack of compliance with Egmont Group principles relating to operational independence and autonomy. UIF El Salvador is now excluded from all Egmont Group events and activities. The Heads of FIU recognized the efforts of UIF El Salvador in working to address these concerns through a legislative process, but concluded that its operational independence and autonomy cannot be assured.

The FRA attended and participated in the Egmont Group’s Securing an FIU (SEC-FIU) Course in Taipei, Taiwan from December 3rd – 7th 2018. The course was conducted with the assistance of the US Bureau of International Narcotics and Law Enforcement Affairs (INL) and the Anti-Money Laundering Division (AML/D), Taiwan and provided participants with best practices in developing and implementing security policies and procedures in the areas of physical, personnel, document, and information security, disaster recovery, and continuity of operations of the FIU.

The CFATF Plenary Meetings

The FRA participated in the 47th CFATF Plenary Meeting in Port of Spain, Trinidad and Tobago from 27th – 31st May 2018. The focus for the FRA is the Heads of FIU (“HFIU”) meeting that takes place at the plenary.

At the 28th HFIU meeting the CFATF Secretariat presented on the discussions held at the FATF HFIU forum held in February 2018, focusing on FIU independence and autonomy.

The Egmont Group Regional Representative (“EGRR”) gave a debrief on the Egmont Group meetings held in Buenos Aires Argentina in March 2018, which focused on FIUs fighting money laundering linked to corruption, and the independence and autonomy of FIUs. Three proposals were put forward to HFIU for perspective ECOFEL projects for the region; training regarding Advanced Strategic Analysis received the most support from the membership. The EGRR also provided an update on the status of regional FIUs membership applications. FIUs that are Egmont members were encouraged to sponsor and support their regional counterparts that were not yet members.

Member FIUs gave brief oral and written updates on material activities / developments in their respective jurisdictions.

At the 47th Plenary the 4th Round MER for Antigua and Barbuda was debated and approved.

The FRA participated in the 48th CFATF Plenary Meeting in Bridgetown, Barbados from 18th – 22nd November 2018.

At the 29th HFIU meeting the CFATF Secretariat presented on the discussions held at the FATF HFIU forum held in October 2018, focusing on enhancing the effectiveness of SAR reporting and the quality of financial intelligence.

Presentations were made by: (i) Western Union on how it supports the operational needs of FIUs and law enforcement agencies; and (ii) FIU Trinidad and Tobago (“FIU T&T”) on operational and strategic analysis it had performed on terrorism and foreign terrorist fighters.

The EGRR gave a debrief on the Egmont Group meetings held in Sydney Australia in September 2018, which focused on the role PPPs can play in the fight against money laundering and the financing of terror. The EGRR confirmed that approval for ECOFEL funded training on strategic analysis had been approved. The training, scheduled to begin in March 2019, will be led by FINTRAC in collaboration with FinCEN and FIU T&T. The EGRR also provided an update on the status of regional FIUs membership applications. FIUs that are Egmont members were encouraged to sponsor and support their regional counterparts that were not yet members.

Member FIUs gave brief oral and written updates on material activities / developments in their respective jurisdictions.

Council, and the operational work of the FRA. These presentations will continue during 2019.

At the 48th Plenary the 4th Round MER for the Cayman Islands was debated and approved.

Results of Disclosures of Information

Correspondences between officers of the Financial Crime Investigation Unit of the Royal Cayman Islands Police Service 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 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.

Industry Presentations

Throughout the Reporting Period, the FRA made presentations at industry association organised events, as well as to local businesses at their request, regarding their obligations under the PCL, their obligations regarding financial sanctions under the TL, PFPL and relevant Overseas Orders in

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 Reporting Period 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. Securities Fraud I

A SAR was filed A Cayman Islands Financial Service Provider (“FSP”) as it was unable to confirm via a direct phone call, email instructions received from Mr. A. The following day, an individual visited the FSP claiming to be Mr. B’s representative and requested additional fund transfers and to add a new signatory to the account

The FSP reported that Mr. A is the sole director, shareholder and beneficial owner of Company A, domiciled in the Cayman Islands, which maintained accounts with the FSP.

Further investigations by the FSP identified

that Mr. B along with other individuals had been indicted in an alleged series of securities schemes in Jurisdiction 1.

Directions issued by the FRA pursuant to s.4(2)(c) of the PCL helped identify further information about the balances in the accounts, how much funds had been processed in the accounts and the sources of the deposits and beneficiaries of outgoing transfers. This facilitated identifying links to other companies / individuals mentioned in the indictment.

Among the companies identified was another Cayman Islands company that appeared to be engaging in securities investment business without being licensed by, or registered with CIMA.

SARs were also received from other FSPs, which helped develop a more comprehensive understanding of Company A’s operations, along with other companies affiliated with Mr. A.

Disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 1.

Indicators:

- Failure to directly contact the authorized signatories on the account
- Sudden change in signatories/authorized representatives
- Adverse information about the beneficial owner and affiliated entities / individuals

2. Securities Fraud II

Several SARs were filed by FSPs due to the information that an overseas statutory body in Jurisdiction 2 had barred Mr. B in all capacities from participating in the sale of unregistered securities. The overseas statutory body had also ordered Mr. B to pay a certain amount for investigation costs.

One of the SARs identified that Mr. B maintained a personal account and that he was also the primary signatory on corporate accounts for Company B and Company C, both domiciled in the Cayman Islands. A SAR filed by another FSP also identified that Mr. B beneficially owns Company D, also domiciled in the Cayman Islands and registered with CIMA.

Directions issued by the FRA pursuant to s.4(2)(c) of the PCL helped identify the following information:

- When the accounts were established and the current has a balance in the accounts.
- Details of how the personal accounts were funded and depleted, including information about the sources of the deposits and beneficiaries of outgoing transfers
- Details of transaction in the corporate accounts which show through a series of intercompany transfers that the Cayman companies were assisting in clearing transactions for microcap stocks and that at times their operations were linked and/or identical raising questions about the need for a SEZC company.

- A sudden decline in the transactions in the corporate accounts around the time that the bar in Jurisdiction 2 was implemented
- A substantial portion of the funds in the accounts were withdrawn via draft purchases

While companies B, C and D had not been charged with criminal offenses, the proceedings in the Jurisdiction 2 identified that they had been involved with companies / individuals under investigation.

Disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 2.

Indicators:

- Adverse information about the beneficial owner / signatory of corporate accounts being barred in a foreign jurisdiction
- Sudden decline in the transactions going through an account
- Similar and / or identical transactions being processed through accounts of companies

3. Securities Fraud III

A FSP acting as registered office was informed by the UBO of Company E, domiciled in the Cayman Islands, that it had been the victim of a fraudulent scheme orchestrated by the directors of Company E's investment manager (domiciled in Jurisdiction 3 and the individuals are nationals of Jurisdiction 3). It was brought to the attention of the FSP, that in order for Company E to settle fees owed for investment management

and other services, the investment manager acquired Company E's underlying investment. The directors of the investment manager were also the directors of Company E.

A direction was issued by the FRA pursuant to s.4(2)(c) of the PCL to amplify the information received. In conducting its analysis of the matter, it appeared that certain provisions of the investment management arrangement entered into by Company E and signed by the directors appeared prejudicial to the company. Further, the FRA identified that there was sufficient grounds to suspect that the directors breached their fiduciary duties by not acting in good faith, and that the investment manager engaged in self-dealing.

The FRA also found basis to suspect that the investment manager, together with others, actively pumped up the value of the underlying investment and charged excessive performance management fees over an extended period. Then at the peak of the pump, they relied on a clause in the investment management agreement to acquire Company E's investment. The FRA concluded that there were reasonable grounds to suspect that securities and other frauds had been perpetrated.

Disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 3.

Indicators:

- Customer complaints/allegations
- Inadequate segregation of duties

- Existence of provisions in contracts that appear prejudicial

4. Foreign Corruption

A FSP reported that it held four investment accounts for Companies F, G, H and I on behalf of politically exposed individuals. Company F (domiciled in Jurisdiction 4) received funds from an overseas company (domiciled in Jurisdiction 5) and immediately transferred those funds to investment accounts for companies G, H and I (IM domiciled in Jurisdiction 6). There was also negative media concerning the individuals, and the investment manager managing the accounts.

The FSP subsequently reported that the investment manager had requested that the monies held be transferred to Jurisdiction 7, where the individuals already held business relationships.

Directions issued by the FRA pursuant to s.4(2)(c) of the PCL obtained copies KYC documentation and activity in the relevant accounts. A review of the account activity for Company F revealed substantial incoming wire transfers from a company that had been linked to state level corruption in a foreign jurisdiction; as well as from one of the individuals employed with a state owned corporation that had undergone privatization.

Open source searches also revealed that authorities in Jurisdiction 8 appeared to have

an interest in the persons affiliated with the account holders.

The FRA formed the view that that there were reasonable grounds to suspect that the accounts held proceeds of crime.

Disclosures were made to the FCIU, CIMA and the FIUs in Jurisdictions 4 to 8.

Indicators:

- Accounts beneficially owned by politically exposed individuals
- Funds received from sources linked to corruption scandals
- Limited information about actual investment activity

5. Ponzi Scheme

The Fund Administrator of two Cayman Islands exempted limited partnerships (“the Funds”), both regulated by CIMA, filed a SAR for a number of concerns including:

- The postponement of a number of redemption requests submitted by investors in the Funds by the General Partner for several months.
- Directions from the GP to backdate redemptions, restate the NAV accordingly, and post-date settlement of those transactions.
- The Funds' trading activity had been limited to owning the stock of Company X (domiciled in Jurisdiction 9) and based upon ownership levels, the Funds appear

to be significant shareholders of Company X.

- All communication with investors is made through the GP or the Director of Company X.
- There is an unusual consistency in the cash flows of the funds in that previous redemptions have been offset by subscriptions from new investors without requiring any corresponding activity in the investment positions held by the Funds.
- Other service providers to the Funds are different from those named in the offering documents (domiciled in Jurisdiction 9).
- Both the custody statements and the email communicating the statements contain numerous typos.
- The Fund Administrator has not been provided a copy of the signed Investment Management Agreement with the company named as Investment Adviser of the Funds in their respective PPMs. Neither have they communicated directly with the Investment Adviser.

A direction was issued by the FRA pursuant to s.4(2)(c) of the PCL to obtain further information, including: details of the number of investors for each class of shares for the Funds; NAVs for the Funds, broken down by class of share; and the number of shares of Company X held by the Funds.

As there were reasonable grounds to suspect a potential Ponzi scheme operation, disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 9.

Indicators:

- Difficulty in paying redemption requests
- Previous redemptions only paid out as new subscriptions are received
- Inconsistencies in entities named in the PPMs against actual service providers including missing paper work

6. Drug Trafficking

A MSB filed a SAR about Mr. J who was remitting money to Jurisdiction 10 using different locations on Island, potentially indicative of structuring. Shortly thereafter, an adverse news story was published regarding Mr. J, which triggered the filing of a SAR by another FSP.

Media reports identified that Mr. J had been arrested in Jurisdiction 10 for attempting to smuggle an illegal substance internationally. It was speculated that another individual, Mr. K, was an accomplice of Mr. J, but those allegations had been denied.

Directions issued by the FRA pursuant to s.4(2)(c) of the PCL obtained Mr. J's remittance activity, which revealed that he was sending funds to Mr. K, demonstrating a known connection. Further research by the FRA indicated that Mr. K had visited the Cayman Islands on several occasions and that Mr. J provided him with accommodation during those visits.

The FRA also issued a direction for Mr. J's banking activity; a review of the bank

statements identified substantial cash deposits that appeared inconsistent with his profile.

Disclosures were made to the FCIU and the FIU in Jurisdiction 10.

Indicators:

- Structuring of remittance payments to avoid reporting thresholds and use of different locations of the MSB to send remittances
- Adverse media on sender and receiver of remittances
- Excessive cash deposits not in line with expected account activity

7. Business Email Compromise Fraud I

A FSP reported that a customer had notified them that he believed he had been the victim of a fraud. According to the customer, he agreed to send wire transfers to an account that he believed to be owned by his landlord, Mr. L.

Through a series of email exchanges, the customer received a request from Mr. L to make advance rental payments at a discounted amount. The customer agreed and sent an initial wire to an account in Jurisdiction 11 identified by Mr. L, but not held in his name.

Mr. L subsequently sent a further email to the customer requesting a personal loan with a promise that the loan would be repaid upon his visit to the Cayman Islands the following week. The customer agreed to extend the loan and sent a wire to another separate account in

a different bank in Jurisdiction 11 that was identified by Mr. L but again was not held in his name.

The customer was informed that Mr. L's email had been compromised after speaking with him by telephone. The bank confirmed that the wires had been sent and attempted to recall the funds from the receiving banks.

Disclosures were made to the FCIU and the FIU in Jurisdiction 11.

Indicators:

- Beneficiaries of remittances different from the requesting party
- Unusual request made via email
- Absence of direct communication outside of email

8. Business Email Compromise Fraud II

A FSP reported in a SAR that its client, Company M domiciled in the Cayman Islands and licensed by CIMA, had been a victim of a business email compromise fraud.

The FSP had been advised that its client was looking for new investment opportunities and would be liquidating several of its investments that had not performed as expected.

Over a short period the FSP received and processed several instructions to transfer funds to alternative investment accounts. The FSP issued instructions to send wires to companies that maintained accounts in Jurisdictions 12 and 13.

The FSP also received a request to confirm balances maintained by Company N (sole shareholder of Company M and domiciled in Jurisdiction 14) in its Cayman Islands bank account and was advised that funds would be transferred from Company N's bank account in Jurisdiction 14 to fund a payment to a company that maintained a bank account in Jurisdiction 15.

The funds were received into Company N's Cayman Islands bank account and instructions were received to send funds to the bank account in Jurisdiction 15. However, the FSP noted a subtle difference in the email domain that was sending the instructions and it was identified that the email of Company N had been compromised. It was also discovered that Company N's bank account in Jurisdiction 14 had been compromised. The payment instructions were not executed.

The Cayman Islands bank was informed of the situation and attempted to recall the previous wire transfers that were sent; however due to the time that lapsed the attempts to recall the funds were unsuccessful.

The FRA's analysis revealed a level of sophistication in the perpetrators of the fraud at times checking with the FSP the amount of funds held at the bank accounts, as well as maintaining the structure of the Cayman Islands bank account as the disbursing account. The identified recipients of the wire transfers also did not stand out as unusual investment positions with the companies being

involved in market research or emerging wearable technology.

Disclosures were made to the FCIU, CIMA and the FIUs in Jurisdictions 12 to 15.

Indicators:

- Subtle difference in the email domain of the instructing party
- Absence of direct communication outside of email

9. Trade Based Money Laundering

A FSP reported an incoming wire transfer for their customer, Mr. O, had been flagged as it appeared to be inconsistent with his profile. The wire transfer was coming from a Company in Jurisdiction 16 that was owned by Mr. P, an individual identified in online blogs and other media to be connected to foreign government officials as a result of his lucrative business activities.

A Direction issued by the FRA pursuant to s.4(2)(c) obtained KYC documents and bank statements. The FRA's review identified that the account was intended to receive income for specific services rendered by Mr. O. He had also advised the FSP that the flagged transaction was for consulting and corporate legal services that he provided to Mr. P and his company.

A review of the transaction history revealed several large incoming and outgoing transfers of large round dollar figures. In recent years the account received numerous wire transfers

from various parties in Jurisdictions 16 and 17 that appear to be involved in the import / export business. Half of those wire transfers had vague or no explanation / purpose. It was also noted that the incoming transfers from Jurisdiction 16 appeared to correspond with outgoing transfers to jurisdiction 17. The large round dollar transactions were concerning given the stated purpose of the account and appear quite large the services rendered.

The transactions in the account appeared to fit the hallmarks identified by the FIU of Jurisdiction 17 in its advisory about trade-based money laundering schemes used to move and hide proceeds of corruption in Jurisdiction 16.

Disclosures were made to the FCIU and the FIUs in Jurisdictions 16 and 17.

Indicators:

- Adverse information about the beneficial owner of a counter party
- Account activity inconsistent with the customer's profile
- Large incoming and outgoing transfers of large round dollar figures that appear to correspond with each other.
- Account activity appearing matching regulatory/law enforcement advisory

10. Money Laundering

A FSP was on boarding a Cayman Islands Mutual Fund (the "Fund") that was previously administered by an overseas fund administrator. This included a review of the

AML documents received by the prior fund administrator and a request for additional AML/KYC documents on the investors of the Fund.

One of the investors, Fund Q (domiciled in Jurisdiction 18) owned 45% of the Fund. The UBO of Fund Q is Mr. R (a national of Jurisdiction 19), a well-known investment adviser. Fund Q is licensed by the relevant regulator in Jurisdiction 18.

The FSP's due diligence procedures identified that Mr. R had previously settled allegations of insider trading brought by the regulator in Jurisdiction 20; however, there appeared to be an outstanding case relating to conspiracy to commit securities fraud. Further inquiries with the Fund's legal counsel confirmed that there was an open indictment against Mr. R in Jurisdiction 20.

The FRA formed the view that there were reasonable grounds to suspect that Fund Q's investment was from proceeds of crime.

Disclosures were made to the FCIU and the overseas FIUs in Jurisdictions 18 to 20.

Indicators:

- Adverse information about the beneficial owner of an investor in a fund
- Further research conducted even though the investor of record was regulated in a jurisdiction with equivalent AML laws.

11. Tax Evasion

Mr. and Mrs. S (nationals of Jurisdiction 21) have been customers of a FSP for several years. Their account has a substantial balance, but minimal account activity. The FSP requested that Mr. and Mrs. S update their due diligence information. Shortly thereafter, Mr. S visited the FSP and attempted to withdraw all the funds and close their account. Mr. S was advised that the FSP required the updated due diligence information prior to the withdrawal request and ultimate closure of the account.

Mr. S explained what the money would be used for and that it had to be in cash, as a cheque or bank draft was not acceptable for the proposed purpose. Mr. S further advised the FSP that he would not be providing the requested information, as it could attract attention from the revenue authority in Jurisdiction 21. The FSP placed the account under restriction pending the provision of the required information and filed the SAR. The FSP also confirmed that the customers had been included in the relevant tax filings with the Cayman Islands Department of International Tax Cooperation (DITC).

While there was no adverse information regarding Mr. and Mrs. S, the FRA formed the view that there were reasonable grounds to suspect that they could be concealing taxable assets from the revenue authority in Jurisdiction 21.

Disclosures were made to the FCIU, DITC and the FIU in Jurisdiction 21.

Indicators:

- Comments about avoiding reporting obligations to overseas agencies
- Reluctance to provide updated due diligence information
- Appearing to deal only in cash which conceals any audit trails

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 or www.FATF-GAFI.org or www.cfatf-gafic.org.

V. STRATEGIC PRIORITIES: BUILDING ON STRENGTHS IN 2019

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.

Strategic Priorities for 2019

During 2019 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. The 4th 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) Implement the Recommended Actions identified in the MER.

(iii) Ensure that records, reports and publications that evidence the implementation and effectiveness of adopted laws and regulations are prepared and maintained.

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 2019, 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
Accountability Office)**

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