INTERIM REPORT
1 JULY – 31 DECEMBER 2017

FINANCIAL REPORTING AUTHORITY

CAYMAN ISLANDS GOVERNMENT

PORTFOLIO OF LEGAL AFFAIRS

TABLE OF CONTENTS

Message from the Director 3

I. Legal Framework 5

II. The Financial Reporting Authority 8

1. Background....8

2. Role and Function 9

3. Organisational Structure and Management....9

4. Protecting Confidentiality of Information 10

5. Relationships 11

III. PERFORMANCE REPORTING 15

1. Receiving Information - Suspicious Activity Reports (SARs) 15

2. Analysing Information....21

3. Disseminating Intelligence 28

4. The Year in Review 37

IV. Strategic Priorities: Building on Strengths in 2018 40

MESSAGE FROM THE DIRECTOR

In September 2017 a decision was taken by the Anti-Money Laundering Steering Group ("the AMLSG") to align the annual reporting cycle of the Financial Reporting Authority ("FRA") (1 July to 30 June) with the Cayman Islands Government's financial year reporting (1 January to 31 December). As such, this Interim Report has been prepared to report on the operations of the FRA for the six-month period 1 July to 31 December 2017 ("the Reporting Period").

The FRA received 563 suspicious activity reports ("SARs") during the Reporting Period. This represented a 90% increase compared to the 296 cases received between 1 July and 31 December 2016. Also of note is this activity is comparable to the number of SARs received during the 2016/17 and 2015/16 financial years, 601 and 620 respectively.

SARs were received from 120 different reporting entities, not including the 27 overseas Financial Intelligence Units ("FIUs") that voluntarily disclosed information to, or requested information from, the FRA.

The FRA closed 42 of the 563 new cases received during the Reporting Period, leaving 521 in progress at year-end. Of the 42 new cases that were completed, 20 resulted in a disclosure[1], 5 were deemed to require no further immediate action, 12 were replies to requests from FIUs and 5 were replies to requests from local law enforcement agencies.

We also completed 46 of 395 cases carried over from 2016/2017, 10 of 233 cases carried over from 2015/2016, 6 of 94 cases carried over from 2014/2015, 2 of 8 cases carried over from 2013/2014 and 1 remaining case from 2012/2013, a total of 65 cases. Of the 65 previous cases that were completed, 25 were deemed to require no further immediate action, 22 resulted in a disclosure[2], 17 were replies to requests from FIUs[3] and 1 was a reply to a request from a local law enforcement agency.

[1] Total number of disclosures to local law enforcement agencies, the Cayman Islands Monetary Authority and overseas financial intelligence units.
[2] As above.
[3] One of these cases also resulted in a disclosure, but is not included in the number of cases disclosed to avoid double counting.

FRA staff spent significant time during the Reporting Period making final preparations for the jurisdiction's 4th Round Mutual Evaluation by the Caribbean Financial Action Task Force ("CFATF"). The key activities included: implementing targeted financial sanctions related to terrorism, terrorist financing and proliferation financing, and monitoring compliance with regulations prescribing anti-terrorism financing and anti-proliferation financing measures; reviewing and proposing changes to relevant legislation; preparing responses for the assigned Financial Action Task Force ("FATF") Recommendations for the Technical Compliance Questionnaire and Immediate Outcomes; drafting and updating relevant procedure manuals and industry guidance, and participating in interviews with the CFATF Assessors during the Onsite Visit that took place December 4th – 15th 2017. The FRA remains committed to the post-onsite activities, including finalising the Mutual Evaluation Report ("MER") and participating in the CFATF Plenary in November 2018, where the MER for the Cayman Islands will be reviewed and approved by the CFATF.

The Reporting Period was particularly challenging, given the considerable increase in the number of SARs received and the ongoing responsibilities of preparing for the CFATF Assessment. I would like to recognize and express appreciation to my staff for their continued commitment to the success of the FRA and the passion they have for their work.

RJ Berry
Director

I. LEGAL FRAMEWORK

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

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

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

It also governs the operations of the FRA.

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

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

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

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

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

The 2017 Revision brings the TL 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 terrorist financing. The FRA has also assumed responsibilities for implementing targeted financial sanctions in relation to terrorist financing.

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

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

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

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

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

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

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

6. The Anti-Money Laundering Regulations, 2017 ("AMLRs")

The AMLRs came into force on 2 October 2017 and repealed and replaced the Money Laundering Regulations (2015

Revision). They align 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 were amended accordingly and published on 13 December 2017.

II. THE FINANCIAL REPORTING AUTHORITY

1. BACKGROUND

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

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

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

- A healthy review of the work undertaken by each subsequent player in the process from SAR to courtroom; and,
- As the majority of SARs are based upon "suspicion", not every piece of confidential financial information should automatically end up in a police database.

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

Striking a balance between the various styles of FIUs, the Cayman Islands moved toward an administrative-type unit. Subsequently the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL) created the Financial Reporting Authority, the name by which the unit is presently known. The law, which came into force on 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.

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

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 8 days of training through workshops and conferences, including a FATF Standards Training Course offered by FATR TREIN, and ACAMS 16th Annual AML & Financial Crime Conference.

FRA Staff also participated in and gained valuable experience from the 33 days spent representing the FRA at the 46th CFATF Plenary, the 24th Plenary of the Egmont Group of Financial Intelligence Units, as well as in presentations made to industry associations and reporting entities.

4. Protecting Confidentiality of Information

The PCL provides the framework for the protection of information obtained by the FRA. Furthermore a layered approach to security has been adopted for the FRA's office and systems. Protecting financial information received from reporting entities is a critical function of the FRA. Computer security

measures include advanced firewalls to prevent unauthorised access to our database. In addition staff are aware of their responsibilities to protect information, and severe penalties exist, under the PCL, for the unauthorised disclosure of information in our possession and control.

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

5. Relationships

Working with Financial Service Providers and Other Reporting Entities

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

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

The Egmont Group

The Egmont Group of FIUs is an international, officially recognised body through the adoption of the Egmont Charter in the May 2007 Plenary held in Bermuda and the establishment of its permanent Secretariat in Toronto, Canada. Its membership currently (2017) comprises 156 countries. It sets standards for membership as well as expanding and systematising international cooperation in the reciprocal exchange of financial information within its membership. The Cayman Islands' commitment to abide by the Egmont Group Principles for Information Exchange preceded its admission to full Egmont membership in 2000. The FRA will continue to participate in the Egmont Working Groups and the Director attending the Egmont Plenary and the heads of FIU meetings.

Memoranda of Understanding (MOUs)

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

The FRA did not enter into any new MOUs with FIUs during the Reporting Period; however, it has signed and exchanged MOUs with the following 19 FIUs as of 31 December

2017: Australia, Canada, Chile, Guatemala, Honduras, Indonesia, Israel, Jamaica, Japan, Mauritius, Nigeria, Panama, Poland, Republic of Korea (South Korea), the Russian Federation, Saint Vincent and the Grenadines, South Africa, Thailand and the United States.

The FRA entered into a MOU with the RCIPS in December 2017, and previously entered into MOUs with the ACC in April 2017 and CIMA back in 2004. It is intended that MOUs with the Immigration and Customs departments will be signed in the near future.

The Caribbean Financial Action Task Force

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

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

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

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

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

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

The FATF Recommendations (2012)

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

organisations.

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

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

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

Other noteworthy revisions are the inclusion of tax crimes as a predicate offence for the purposes of money laundering, and improved transparency to make it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements.

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

The FATF revised its Methodology in 2013, setting out the basis for undertaking assessments of technical compliance with the Recommendations. For its 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 Armenia, Andorra, Australia, Austria, Bahamas, Bangladesh, Barbados, Belgium, Bhutan, Botswana, Cambodia, Canada, Costa Rica, Cuba, Denmark, Ethiopia, Fiji, Guatemala, Honduras, Hungary, Ireland, Isle of Man, Italy, Jamaica, Macao SAR, Malaysia, Mexico, Mongolia, Nicaragua, Norway, Panama, Portugal, Samoa, Serbia, Singapore, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Trinidad and Tobago, Tunisia, Uganda, Ukraine, United States, Vanuatu and Zimbabwe have been published on FATF's website.

III. PERFORMANCE REPORTING

1. Receiving Information - Suspicious Activity Reports (SARs)

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

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

During the Reporting Period, the FRA received SARs from 120 different reporting entities. This number excludes the 27 overseas FIUs that voluntarily disclosed information or requested information from the FRA. SARs received from the 120 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 decreased from 148 in 2016/2017 to 120 in 2017. Reporting entities in the banking sector continue to be the largest source of SARs.

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

Sector	No of Cases
Banking	311
Fiduciary services	60
Insurance services	14
Investment funds and fund Administrators	32
Money transmitters	60
Securities investment businesses	7
DNFBPs	26
Requests for Information – Domestic	9
Disclosures & Requests for Information – Overseas	41
CIMA	3
Total No of Cases	563

Anyone who files a SAR has a defence to any potential related money laundering or terrorist financing offences. SARs filed under the PCL do not breach the newly enacted Confidential Information Disclosure Law, 2016, nor do they give rise to any civil liability. An important exception to this rule is that it is no defence to such liability, if the person making the report is also the subject of the report.

Chart 3.1 on the succeeding page shows the total number of reports by financial year since 2013/2014. For the Reporting Period the FRA received 563 new cases. 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.

For the first five months of the Reporting Period, the average number of reports received per month was 69. This was already a significant increase compared to 50 reports per month in 2016/2017. In December 2017, the FRA received 220 reports; however, we are of the view that this was a 'one-off' event. The previous record for the largest number of reports received in a single month was 89 reports received in November 2016. (see Chart 3.2 on the next page).

The total of 1,426 subjects were identified in SARs (see Chart 3.3 on page 18), comprising 964 natural persons and 462 legal entities. 56 natural persons and 13 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 411, comprising 261 natural persons and 150 legal entities.

The number of subjects whose nationality or country of incorporation is not identified declines from 417 to 201 when subjects from overseas request for information and cases from money transmitters are excluded. Several money transmitters and overseas FIUs cases failed to identify the subject's nationality or jurisdiction of incorporation.

Charts 1.1 and 1.2 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 18.

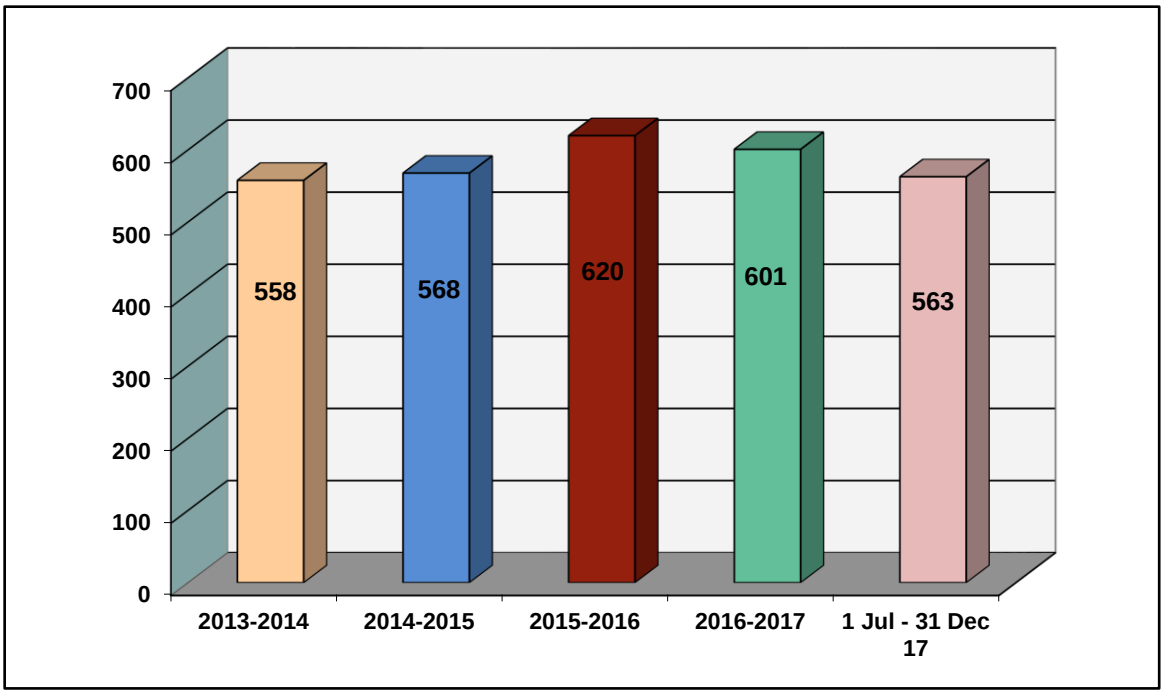

Chart 3.1: Total cases by financial year / Reporting Period

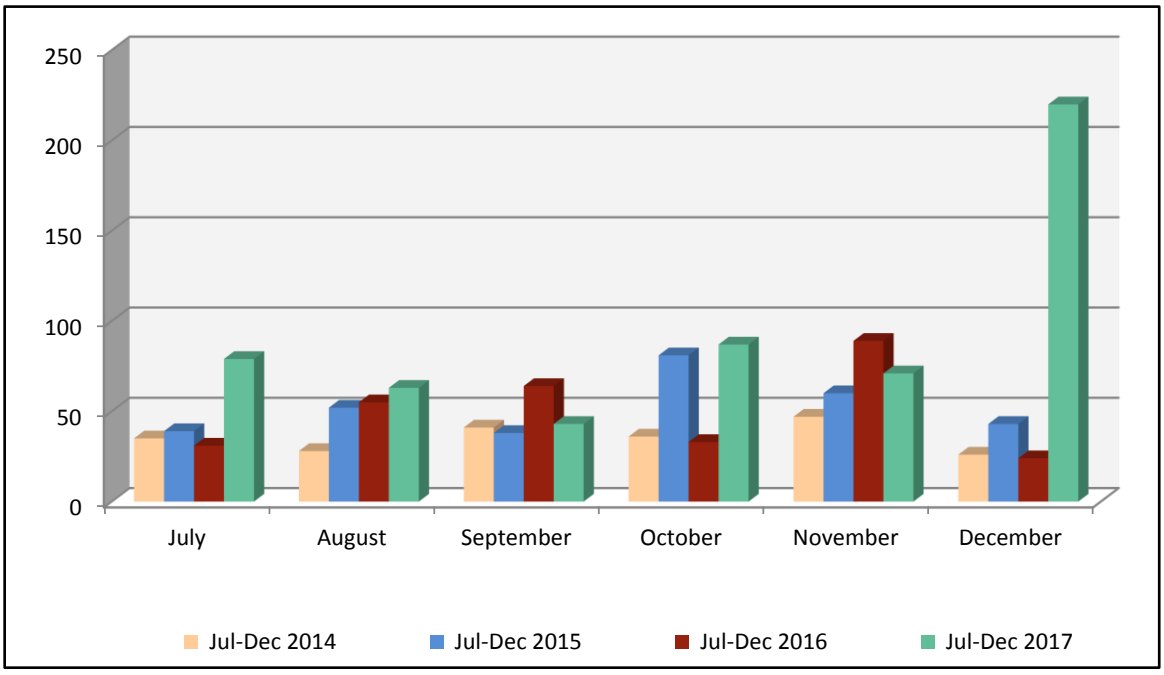

Chart 3.2: Comparison of monthly cases received

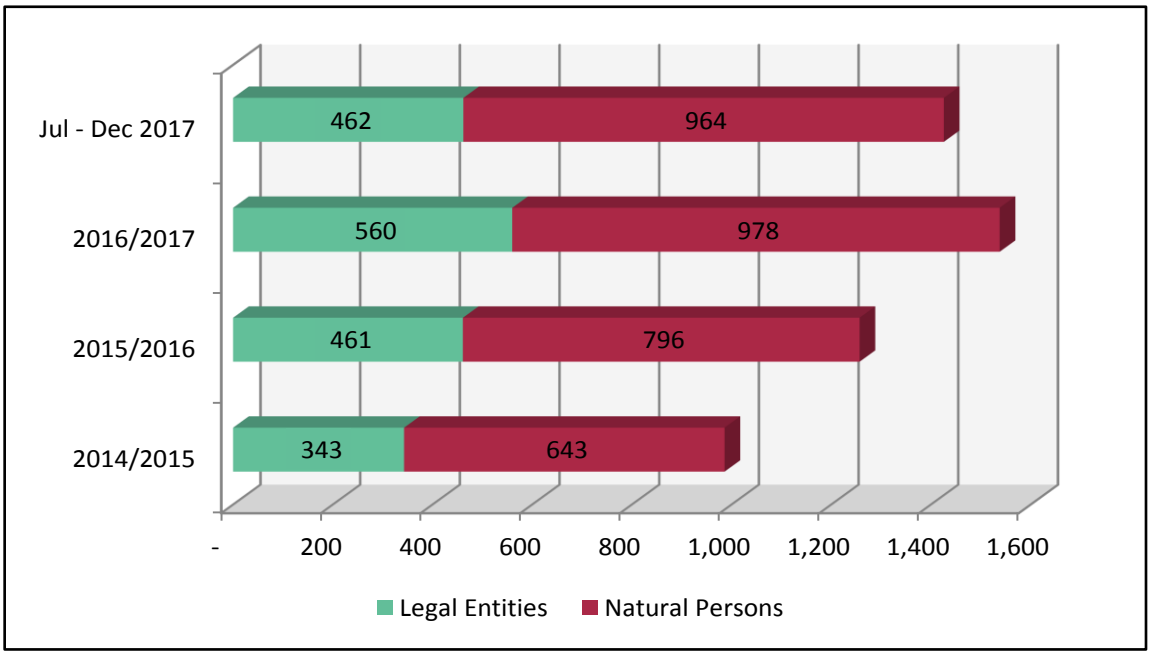

Chart 3.3: Number of subjects by financial year / Reporting Period

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 85 different countries for the subjects of the reports. In light of the international character of the subjects reported, our membership of the Egmont Group has proven to be a valuable resource for information exchange and requests and has enhanced the analysis of information reported in the development of intelligence.

The greatest number of subjects was classed as Caymanian. Of those 278, 50 were Caymanian nationals (natural persons) and 228 were legal entities established in the Cayman Islands. The United States provided the second largest number at 249, comprising 241 natural persons and 8 legal entities. Third was Jamaica with 46 natural persons. Brazil with 44 natural persons and 1 legal entity and the United Kingdom with 39 natural persons and 1 legal entity complete the top 5 countries. Canada, Venezuela, the British Virgin Islands, Philippines, Netherlands, Panama and Mexico are the only other countries with 10 or more subjects. Together these twelve countries account for 784 subjects, which represents 55% of the total.

The category "Others" in the Chart 3.4 is comprised of subjects from Angola, Austria, Bahrain, Barbados, Belgium, Belize, Bermuda, Bulgaria, Chile, Costa Rica, Croatia, Curacao, Denmark, Ecuador, Equatorial Guinea, Greece, Guatemala, Guernsey, Guyana, Hong Kong, Iran, Ireland, Jersey, Kuwait, Lithuania, Malta, Nepal, New Zealand, Nicaragua, Portugal, Romania, Seychelles, Singapore, Slovakia, South Africa, Spain, St. Vincent and the Grenadines, Sweden, Turkey, and the United Arab Emirates.

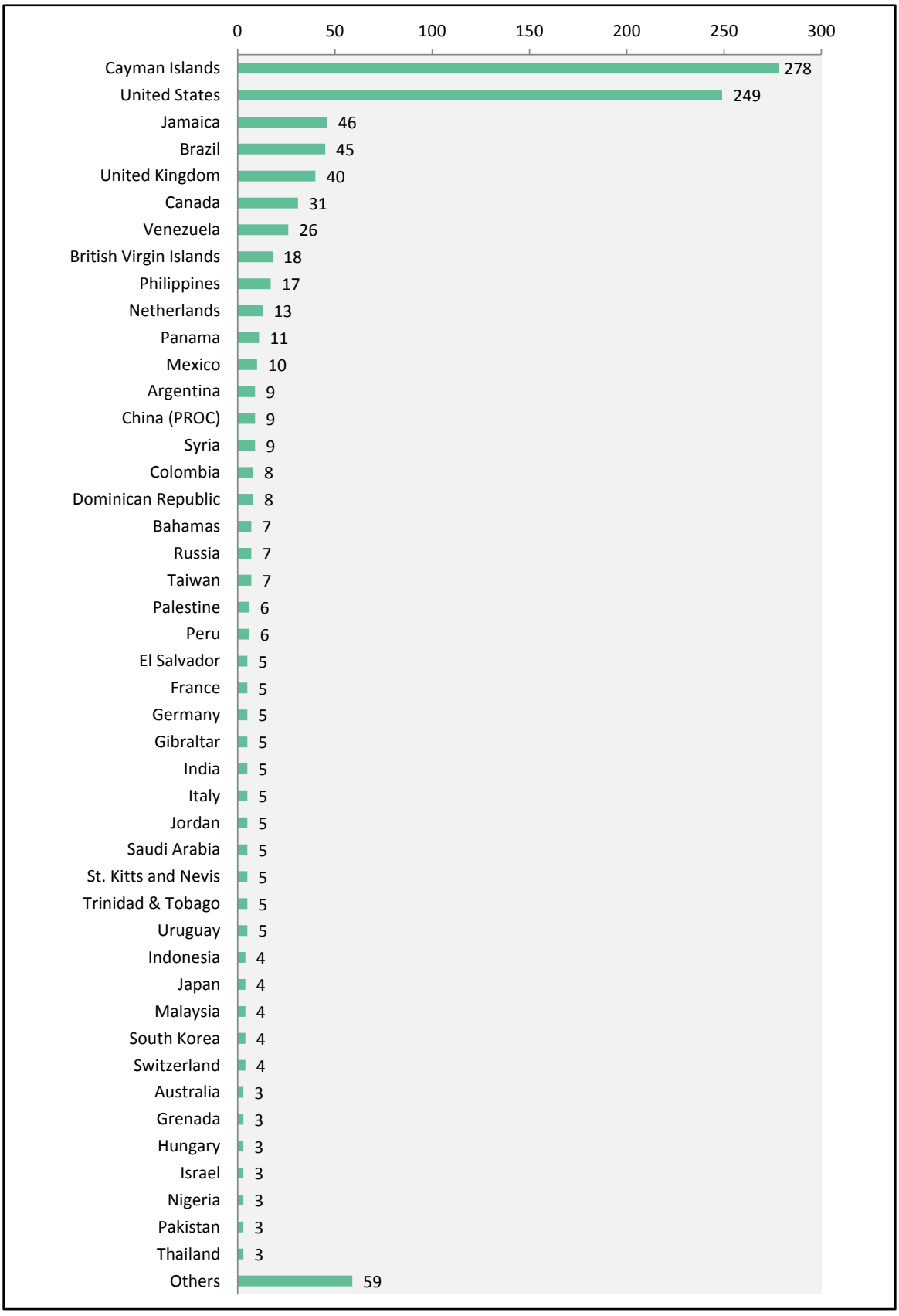

Chart 3.4: Countries of subjects in SARs reported in the Reporting Period

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 - 311
- Money Transmitters – 60
- Overseas Financial Intelligence Units - 41
- Company Managers / Corporate Service Providers – 35
- Trust Companies – 25

Banks continue to be the largest source of SARs received, with 26 banks making reports during the Reporting period.

Money Transmitters filed 60 SARs during the Reporting period, which extrapolated on an annual basis, is a 186% decrease from the 42 SARs submitted in 2016/2017.

Trust Businesses and Company Managers / Corporate Service providers continue to be a significant source of SARs with a combined 60 SARs during the Reporting Period.

Mutual Fund Administrators filed 22 SARs during the Reporting Period.

The largest number of SARs received from DNFBPs came from law practitioners (18). Other DNFBPs filing SARs included: accounting professionals, real estate brokers and dealers of high value goods.

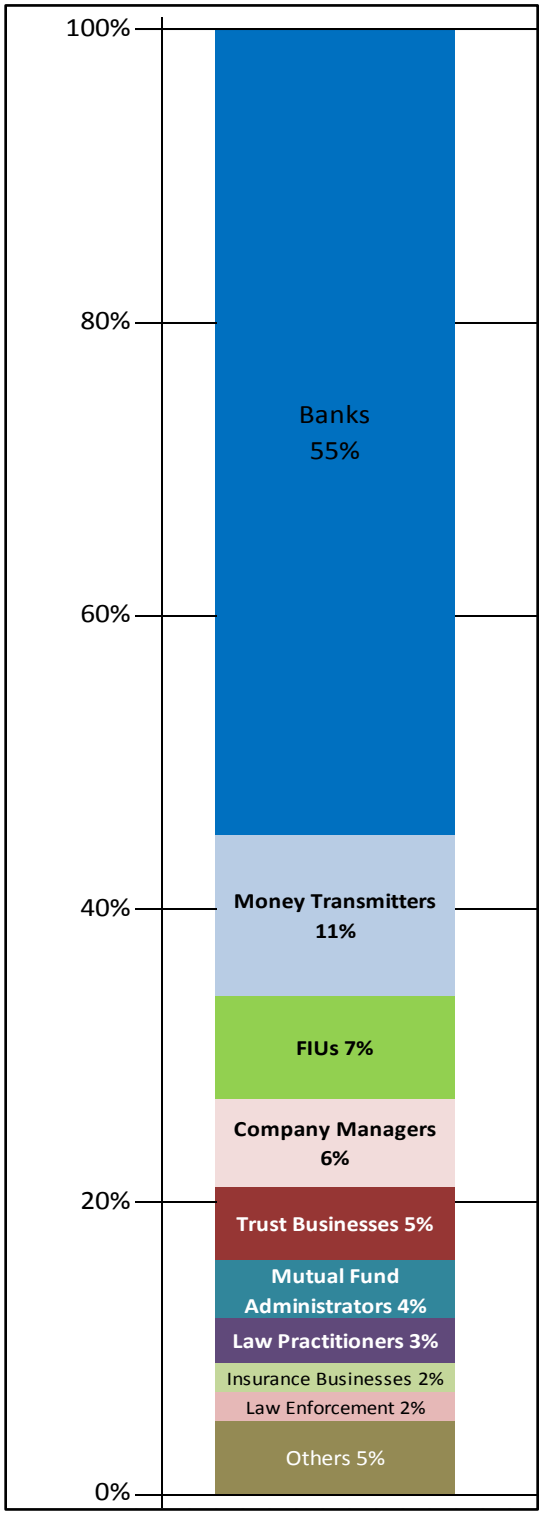

Chart 3.5: Sources of Cases

2. Analysing Information

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

Consistent with the provisions of the PCL, the FRA made 48 requests locally to clarify or amplify information received in 36 cases; 30 of these requests were to the SAR filer with the other 18 going to third parties. The majority of the information requested consisted of financial information, including account statements, and beneficial ownership.

Twelve (12) requests for information to overseas FIUs were made via the Egmont Secure Web, arising from 8 cases. These requests greatly assisted the FRA in determining whether to make disclosures to local law enforcement, as well as to overseas FIUs. Chart 3.6 below shows the number of requests made locally and overseas for the past four years.

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

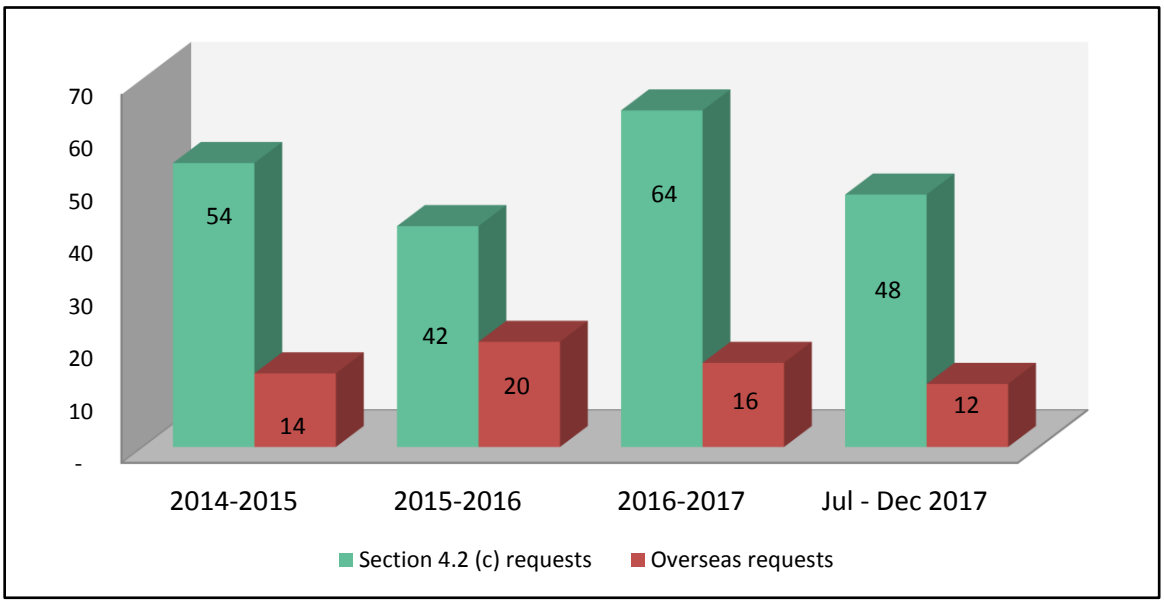

Chart 3.6: Number of request made locally and overseas

SARs Trend Analysis

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

- tax evasion - 185
- suspicious financial activity – 153
- fraud – 102
- corruption – 39
- money laundering – 28

Tax evasion was the top reason for filing a SAR; however, we are of the view that the increase in tax SARs is not directly correlated with the introduction of section 247A of the Penal Code (2017 Revision) making intent to defraud the government of general revenue an offence.

Included in the 102 reports citing fraud as the reason for suspicion are: bank fraud, investment/securities fraud and unlawful schemes and other financial fraud. Included in unlawful schemes and other financial fraud are: business email compromise schemes, debt collection scams, and variations of counterfeit cheque schemes. Table 3.7 below provides a detailed breakdown of the reasons for suspicion.

Reason	%
Tax Evasion	33%
Suspicious Activity	27%
Fraud	18%
Corruption	7%
Money Laundering	5%
Declined Business	2%
Regulatory Matters	1%
Drug Trafficking	1%
Terrorist Financing	1%
Others	5%
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) **38 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.

b) **27 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) **26 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.

d) **25 reports about transactions inconsistent with client profile:** Reports about transactions that are inconsistent with the established client profile include reports where the FSP identified that its client's recent transactions do not match the profile initially provided when the account was established and the client's explanation for the transactions appears to raise further questions.

e) **22 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) **15 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 third most common reason for the filing of suspicious activity reports. Included in this category are bank fraud, securities fraud, internet fraud and other financial scams. During 2016/2017 the FRA received reports regarding the following:

Bank Fraud

Cases about bank fraud generally involved the use of illegal means to obtain money, assets, or other property owned or held by a financial institution, or to obtain money from depositors by fraudulently posing as a bank or other financial institution. This can involve the use of the internet or online schemes. Included in

reports about bank fraud are account take-over schemes, forged cheques, cheque kiting, debit or credit card skimming and fraudulent bank reference letters.

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

During the Reporting Period the FRA continued to see reports about "CEO Fraud" targeting a cross section of FSPs. CEO Frauds typically start with an email being sent from a fraudster purporting to be a company director or CEO to a member of staff in a company's finance department. The email is made to appear similar to that of a legitimate user and instructs the member of staff that the director or CEO needs to quickly transfer money to a certain bank account for a specific reason. The member of staff will do as his / her superiors have instructed, only to discover later that the instructions were not legitimate. Fraudsters exploit the amount of time that the fraud remains undiscovered by quickly moving the money into mule accounts. Most filings reported companies initially being contacted via emails that are made to appear similar to those of the legitimate users.

Investment/Securities Fraud

Investment/Securities Fraud, more specifically insider trading and stock manipulation, are regularly identified as reasons for suspicions. Most of these reports received during the 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

Suspicions 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.

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

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

The number of reports about debt collection scams where the perpetrators claim to be international clients with large commercial accounts that need to be placed with a local collection agency for collection has decreased; however, such types of fraud continue to crop up as evidenced by the occasional SAR still being received.

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

Corruption

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

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

During the Reporting Period reports that identified 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.

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

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

Tax Evasion

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.

Additionally 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

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 563 new reports. The FRA completed the review of 42 of these reports, leaving 521 in progress at 31 December 2017. Of the 42 new reports analysed, 20 resulted in a disclosure, 5 were deemed to require no further immediate action, 12 were replies to requests from FIUs and 5 were replies to requests from local agencies.

The reasons for reports that resulted in a disclosure during the reporting period were:

- fraud – 12
- corruption – 3
- theft – 2
- drug trafficking – 1
- suspicious activity (high volume) – 1
- Illegal Deforestation - 1

	No. of Cases				
Disposition	2017	2016-17	2015-16	2014-15	2013-14
Cases Analysed Requiring No Further Action	5	71	161	266	279
Cases Analysed that Resulted in a Disclosure	20	122	173	158	212
Reply to Domestic Requests	5	7	3	-	-
Reply to Overseas Requests	12	52[4]	60[5]	56	61[6]
In Progress (as at 31 December 2017)	521	349	223	88	6
Total Cases	563	601	620	568	558

Table 3.8 Disposition of reports received as at 31 December 2017

The FRA also completed analysis on 46 of 395 reports carried over from 2016/2017, 10 of 233 reports carried over from 2015/2016, 6 reports carried over from 2014/2015, 2 of 8 reports carried over from 2013/2014 and the remaining 1 report carried over from 2012/2013, a total of 65 reports. Of the 65 previous reports that were completed, 25 were deemed to require no further immediate action, 22 resulted in a disclosure, 17 were replies to requests from FIUs[7] and 1 was a reply to a local request.

Table 3.8 shows the disposition of the reports for the past four and a half years as at 31 December 2017.

As at 31 December 2017, the FRA had commenced initial analysis on 58 of 349 pending 2016/2017 cases, 33 of 223 pending 2015/2016 cases, 44 of 88 pending 2014/2015 cases and 6 of 6 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 42. These 42 reports comprise 20 reports from 2017, 16 reports from 2016/2017, 5 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 42 reports was disclosed in the manner shown in Table 2.9 below. The total number of cases disclosed exceeded the number of actual cases, as some disclosures were made to more than one local law enforcement agency and / or overseas FIUs.

[4] Two of these cases also resulted in disclosures, but are not included in the number of cases disclosed to avoid double counting.
[5] One of these cases also resulted in disclosures, but is not included in the number of cases disclosed to avoid double counting.
[6] Two of these cases were previously also included in the number of cases disclosed; this has been amended to avoid double counting.
[7] One of these cases also resulted in disclosures, but is not included in the number of cases disclosed to avoid double counting.

	No. of Cases Disclosed				
Recipient	2017	16-17	15-16	14-15	13-14
RCIPS	17	16	5	-	-
CIMA	3	7	4	-	-
Other LLEAs	1	-	-	-	-
Overseas FIUs	12	11	4	-	1

Table 3.9: Number of disclosures made during Reporting Period

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 58 voluntary disclosures to overseas FIUs from 28 reports completed. Those 28 reports comprise 12 reports from the Reporting Period, 11 reports from 2016/2017, 4 reports carried over from 2015/2016 and 1 report carried over from 2013/2014.

The FRA also provided responses to 29 requests for information from overseas FIUs. Those reports comprise 12 reports from the Reporting Period, 15 reports from 2016/2017, 1 report carried over from 2015/2016 and 1 report carried over from 2014/2015.

Chart 3.10 on the next page shows that those voluntary disclosures and responses went to 35 different jurisdictions. The United States received the largest number of disclosures from the FRA and Ecuador received the most replies from the FRA.

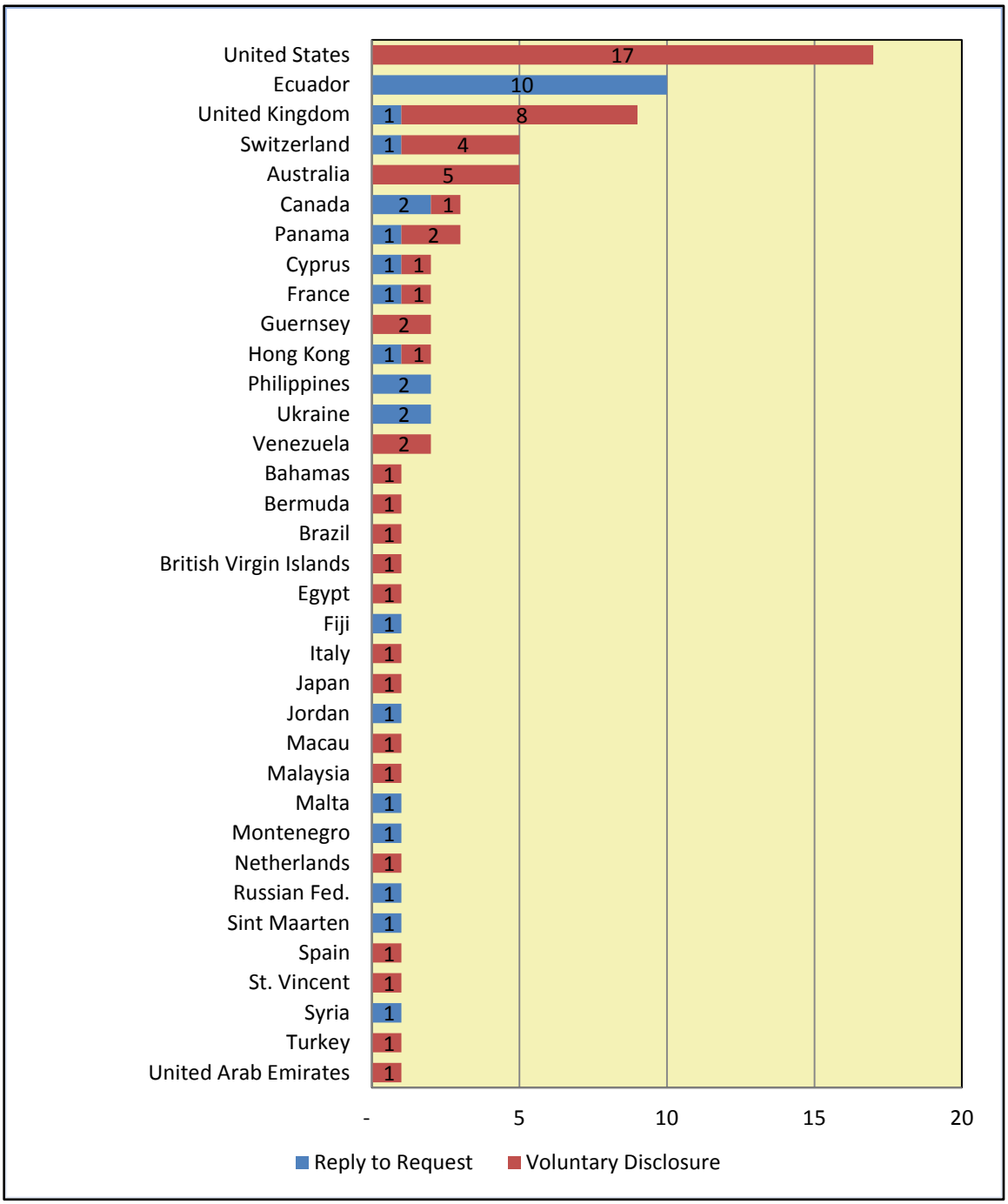

Chart 3.10: Overseas disclosures and replies to request for information

Disposition of 2016/2017 Reports Carried Over to Reporting Period

During the Reporting Period, 46 of the 395 reports carried over from 2016/2017 were completed: 14 reports were deemed to require no further action, 16 resulted in a disclosure, 15 were responses to a request from a FIU and 1 was a reply to a domestic request. Of the 16 reports that resulted in a disclosure, information contained in those reports were disclosed to the RCIPS (16 disclosures), to CIMA (7 disclosures) and to Overseas FIUs (11 disclosures).

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

Disposition	2016-17 Cases Carried Over to 1-Jul-17	2016-17 Cases Analysed through 2016-17	Total
Cases Analysed Requiring No Further Action	14	57	71
Disclosed to CIMA only	-	9	9
Disclosed to CIMA and Overseas FIU	-	9	9
Disclosed to CIMA and RCIPS	3	4	7
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS and Overseas FIU	4	9	13
Disclosed to HM Customs only	-	-	-
Disclosed to RCIPS only	2	39	41
Disclosed to RCIPS and CI Immigration	-	4	4
Disclosed to RCIPS and HM Customs	-	1	1
Disclosed to RCIPS, CI Immigration and Overseas FIU	-	-	-
Disclosed to RCIPS and Overseas FIU	6	21	27
Disclosed to CI Immigration only	-	-	-
Disclosed to Overseas FIU only	1	9	10
Reply to Domestic Requests	1	6	7
Reply to Overseas Requests	14	36	50
Reply to Overseas Requests and Disclosed to Overseas FIU	-	1	1
Reply to Overseas Requests and Disclosed to RCIPS	1	-	1
In Progress as of 30 June 2017		395	395
Cases carried forward to 1 July 2017	(395)	-	(395)
In Progress as of 31 December 2017	349	-	349
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

10 of the 233 reports carried over from 2015/2016 were completed as follows: 4 reports were deemed to require no further action, 5 resulted in a disclosure and 1 was a reply to a request from a FIU. Of the 5 reports that resulted in a disclosure, information contained in those reports were disclosed to the RCIPS (5 disclosures), to CIMA (4 disclosures) and to Overseas FIUs (4 disclosures).

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

Disposition	2015-16 Cases Carried Over to 1-Jul-17	2015-16 Cases Analysed through 2016-17	Total
Cases Analysed Requiring No Further Action	4	157	161
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	-	15	15
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	2	2
Disclosed to CIMA, RCIPS and Overseas FIU	4	6	10
Disclosed to HM Customs only	-	2	2
Disclosed to RCIPS only	1	84	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	-	19	19
Disclosed to CI Immigration only	-	2	2
Disclosed to Overseas FIU only	-	12	12
Reply to Domestic Requests	-	3	3
Reply to Overseas Requests	1	58	59
Reply to Overseas Requests and Disclosed to RCIPS	-	1	1
In Progress as of 30 June 2017		233	233
Cases carried forward to 1 July 2017	(233)	-	(233)
In Progress as of 31 December 2017	223	-	223
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

6 of the 94 reports carried over from 2014/2015 were completed during the Reporting Period: 5 reports were deemed to require no further action and 1 was a reply to a request from a FIU.

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

Disposition	2014-15 Cases Carried Over to 1-Jul-17	2014-15 Cases Analysed through 2016-17	Total
Cases Analysed Requiring No Further Action	5	261	266
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	1	55	56
In Progress as of 30 June 2017		94	94
Cases carried forward to 1 July 2017	(94)		(94)
In Progress as of 31 December 2017	88		88
Total Cases	-	568	568

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

Disposition of 2013/2014 Reports Carried Over to Reporting Period2016/2017

During 2017, the FRA also completed 2 of the 8 reports carried over from 2013/2014. Of the 2 reports completed: 1 was deemed to require no further action and 1 resulted in a disclosure to a FIU.

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

Disposition	2013-14 Cases Carried Over to 1-Jul-17	2013-14 Cases Analysed through 2016-17	Total
Cases Analysed Requiring No Further Action	1	278	279
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	17	18
Disclosed to the Attorney General's Office	-	1	1
Reply to Overseas Requests	-	59	59
Reply to Overseas Requests, Disclosed to RCIPS	-	2	2
In Progress as of 30 June 2017		8	8
Cases carried forward to 1 July 2017	(8)		(8)
In Progress as of 31 December 2017	6		6
Total Cases	-	558	558

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

Disposition of 2012/2013 Cases Carried Over to Reporting Period

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

Disposition	2012-13 Cases Carried Over to 1-Jul-17	2012-13 Cases Analysed through 2016-17	Total
Cases Analysed Requiring No Further Action	1	165	166
Disclosed to CIMA only	-	35	35
Disclosed to CIMA and RCIPS	-	14	14
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1
Disclosed to CIMA, RCIPS and Overseas FIU	-	5	5
Disclosed to RCIPS only	-	57	57
Disclosed to RCIPS and CI Immigration	-	10	10
Disclosed to RCIPS and HM Customs	-	1	1
Disclosed to RCIPS, CI Immigration, HM Customs and Overseas FIU	-	2	2
Disclosed to RCIPS and Overseas FIU	-	7	7
Disclosed to CI Immigration only	-	2	2
Disclosed to Overseas FIU only	-	28	28
Reply to Local Requests	-	5	5
Reply to Overseas Requests	-	59	59
In Progress as of 30 June 2016		1	1
Cases carried forward to 1 July 2017	(1)		(1)
In Progress as of 31 December 2017	0		0
Total Cases	-	392	392

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

4. The Year in Review

The following table shows the detailed disposition of the cases as at 31 December 2017:

	No. of Cases					
Disposition	1 Jul – 31 Dec 2017	2016-17	2015-16	2014-15	2013-14	2012-13
Cases Analysed Requiring No Further Action	5	71	161	266	279	166
Disclosed to ACC only	1	-	-	-	-	-
Disclosed to CIMA only	-	9	4	34	40	35
Disclosed to CIMA and Overseas FIU	-	9	3	3	-	-
Disclosed to CIMA and HM Customs	-	-	1	-	-	-
Disclosed to CIMA and RCIPS	1	7	15	10	19	14
Disclosed to CIMA, RCIPS and CI Immigration	-	1	1	2	-	1
Disclosed to CIMA, RCIPS, CI Immigration and HM Customs	-	-	2	-	-	-
Disclosed to CIMA, RCIPS and Overseas FIU	2	13	10	10	12	5
Disclosed to HM Customs only	-	-	2	-	-	-
Disclosed to RCIPS only	6	41	85	67	73	57
Disclosed to RCIPS and CI Immigration	-	4	16	7	15	10
Disclosed to RCIPS and HM Customs	-	1	-	-	-	1
Disclosed to RCIPS, CI Immigration and HM Customs	-	-	-	-	2	-
Disclosed to RCIPS, CI Immigration, and Overseas FIU	-	-	1	-	-	-
Disclosed to RCIPS, CI Immigration, HM Customs and Overseas FIU	-	-	-	-	-	2
Disclosed to RCIPS and Overseas FIU	8	27	19	10	28	7
Disclosed to CI Immigration only	-	-	2	1	4	2
Disclosed to Overseas FIU only	2	10	12	14	18	28
Disclosed to the Attorney General's Office	-	-	-	-	1	-
Reply to Domestic Requests	5	7	3	-	-	5
Reply to Overseas Requests	12	50	59	56	59	59
Reply to Overseas Requests, Disclosed to Overseas FIU	-	1	-	-	-	-
Reply to Overseas Requests, Disclosed to RCIPS	-	1	1	-	2	-
In Progress – initial analysis completed	52	58	33	44	6	-
In Progress – initial analysis incomplete	469	291	190	44	-	-
Total Cases	563	601	620	568	558	392

Table 3.15 Disposition of cases received (detailed)

Significant Events

Analysis of Reports

The FRA had a busy year with 1,143 reports to analyse during the Reporting Period, comprising: 563 new reports, 337 reports carried over from 2016/2017, 194 carried over from 2015/2016, and 49 carried over from 2014/2015. There were also 58 reports carried over from 2016/2017, 39 reports carried over from 2015/2016, 45 reports carried over from 2014/2015, 8 reports carried over from 2013/2014 and 1 report carried over from 2012/2013 that were previously analysed, but not completed and which required further analysis. The FRA staff analysed 149 of the 1,143 unanalysed reports, an average of 25 reports per month.

A total of 107 reports were closed during the Reporting Period, comprising: 42 reports received during the Reporting Period, 46 reports carried over from 2016/2017, 10 reports carried over from 2015/2016, 6 reports carried over from 2014/2015, 2 reports carried over from 2013/2014 and 1 report carried over from 2012/2013). On average, 18 reports were completed per month.

The Egmont Group Meetings

The FRA attended and participated in the 24th Plenary of the Egmont Group of Financial Intelligence Units in Macao, SAR from 2nd – 7th July 2017 to discuss the challenges faced by FIUs in combatting money laundering, associated predicate offences and terrorist financing, especially in the areas of international cooperation and information sharing were discussed. The meetings were attended by 354 participants, representing 112 FIUs, 11 observer organisations and 8 international partners.

The highlight of the plenary was the endorsement of the Egmont Group Centre for FIU Excellence and Leadership (ECOFEL), which will provide member FIUs and those seeking membership with a dedicated and sustainable structure providing technical assistance, training, and mentoring activities to enhance the effectiveness of FIUs

The FIUs of Kuwait and Sudan were endorsed as new members of the Egmont Group by the Heads of FIUs during the meeting, and FIU Germany's new membership as an administrative unit (previously a law enforcement unit). The membership of FIU Nigeria was suspended following repeated failures regarding the protection of confidential information.

The CFATF Plenary Meetings

The FRA participated in the 46th CFATF Plenary Meeting in Georgetown, Guyana from 12th – 16th November 2017. The focus for the FRA is the Heads of FIU ("HFIU") meeting that takes place at the plenary.

At the 27th HFIU meeting in Guyana the new Americas Regional Representative for the Egmont Group presented on the Egmont Strategic Plan and ECOFEL. An Environmental Scan questionnaire had been circulated prior to the meeting to identify training needs for CFATF FIUs, which was

discussed at the meeting and the responses from the HFIUs were tabulated in order to identify training priorities. The Regional Representative 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.

The CFATF Secretariat made a presentation on Immediate Outcome 6 to the HFIUs, particularly with regard to how IO 6 should be assessed and how to achieve effectiveness.

At the 46th Plenary the 4th Round MER for Barbados was debated and approved.

Results of Disclosures of Information

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

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

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

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

Industry Presentations

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

IV. STRATEGIC PRIORITIES: BUILDING ON STRENGTHS IN 2018

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

Strategic Priorities for 2018

During 2018 we will continue to build on our strengths and seek to continuously improve performance. Our main priorities for the year will remain unchanged, namely:

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

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

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

   To deliver on this priority, we will:

   (i) Continue to periodically assess the intelligence reports we produce to ensure that they are useful to the recipients, including meeting with local agencies regularly and obtaining formal feedback on the usefulness of our intelligence reports. Feedback will also be sought from overseas FIUs.

   (ii) Actively monitor the timeliness of our disclosures, with the aim of continuously improving disclosure times.

   (iii) Publish annually trends and patterns of financial crime impacting the Cayman Islands.

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

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

To deliver on this priority, we will:

(i) Engage with reporting entities to foster improved quality of SARs.

(ii) Correspond with reporting entities in a timely manner, both in acknowledging receipt of SARs and providing feedback on filings.

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

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

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

4. High Performing Staff

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

To deliver on this priority, we will:

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

(ii) Define clear performance expectations and provide timely feedback.

(iii) Continue the process of improvement and encouraging innovation

5. Assess Existing Information Technology Infrastructure

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

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

Money Laundering

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

(Source: FinCEN website)

Terrorist Financing

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

(Source: 2005 Report of the United States Government

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