



AML/CFT Activity Report 2023

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INTRODUCTION

As part of its overall mandate under the Monetary Authority Act (2020 Revision), the Cayman Islands Monetary Authority (“CIMA” or “the Authority”) is responsible for the regulation and supervision of FSPs, and for monitoring, supervising, and enforcing compliance under the Anti-Money Laundering Regulations (2023 Revision) (the “AMLRs”).

This ‘2023’ AML/CFT Activity Report sets out CIMA’s AML/CFT activity and outcomes during the period. CIMA has delivered on its AML/CFT objectives, including conducting on-site inspections (“OSIs”) and maintaining regular contact with licensees, registrants, and industry associations.

In summary, CIMA has:

- Conducted 65 AML/CFT OSIs of regulated entities.
- Issued five (5) letters of no findings.
- Issued 454 requirements, 446 being ‘matters requiring immediate attention’ (“MRIAs”).
- Conducted five (5) follow-up inspections, of which four (4) had repeat findings or further deficiencies identified through their follow-up OSI.
- Cancelled the registration of one (1) Securities Registered Person for breaches of the AMLRs and investigated two (2) licensees for breaches of the AMLRs.
- Collected and analysed AML Surveys, VASP Travel Rule Returns and Banking Cash Flows Returns, using Strix, a SupTech tool for data collection and processing entity risk assessments.

CIMA will continue to take robust and prompt action where it finds that regulated entities are not meeting the standards required by the AMLRs, including use of enforcement action where appropriate and proportionate.

2023 AML/CFT SUPERVISORY FUNCTION

CIMA carries out its AML/CFT supervision of regulated entities through the work of the Anti-Money Laundering Division (“AML”) and the Regulatory and Non-Regulatory Divisions.

The AMLD was established in March 2019 as a specialist supervisory division dedicated to the monitoring and supervision of relevant entities under CIMA’s remit for compliance with AML and CFT requirements. AMLD’s responsibilities include the control, ownership, and governance of the AML/CFT OSIs, a risk-based approach to AML/CFT supervision, subsequent monitoring of AML/CFT requirements, escalation of matters to enforcement and conducting administrative fines investigations.

As at December 31, 2023, over 32,000 legal persons were subject to CIMA’s supervision across all sectors as per the below.

Table 1: Number of licensees and registrants under CIMA’s supervision, 2023

No. of Licensees /Registrants	Total
Banking & Trusts	87
Cooperative & Building Societies	3
Development Bank	1
Banking - Controlled Subsidiaries	7
Money Services Businesses	5
Trust & Corporate Services Providers	471
Insurance	841
Mutual Funds	12,802
Private Funds	16,551
Mutual Fund Administrators	74
Securities Licensees and Registered Persons	1,572
Virtual Asset Service Providers	19
Total	32,433

RISK-BASED SUPERVISION

CIMA takes a risk-based approach in determining the scope, frequency and focus of on-site and off-site AML/CFT supervision. In addition to considering the identified ML/TF risks and mitigation measures associated with regulated entities, it will also take into account the inherent ML/TF risks identified by the country through the National Risk Assessment and sectoral risk assessments conducted by CIMA. This strategy takes account of the characteristics of all entities within CIMA's remit, and in particular, has regard for the number and diversity of these entities and the degree of supervisory discretion afforded to them under the risk-based approach.

In 2019 the Authority purchased STRIX, a SupTech software, to automate the collection and scoring of AML inherent risk and controls data from regulated entities. In 2023, AMLD issued AML Surveys through STRIX to FSPs to complete individual risk assessments. STRIX is maintained as a live risk rating tool where the scoring will not only incorporate the results of the AML Surveys but will also incorporate the following to ensure the Authority has a live understanding of regulated entity risk:

- Results from AML/CFT OSIs.
- Information from onward disclosures from the Financial Reporting Authority or Registrar of Companies.
- Screening results from World-Check software.
- Quarterly Cash Flows Return – Banking.
- Quarterly Travel Rule Return – VASP.
- Adverse media.

The following are additional factors or sources of information that the regulatory divisions consider in prioritising OSIs:

- Nature and intensity of the deficiencies identified in a licensee/regulated entity during off-site monitoring or the previous OSI.
- Insufficient progress of a licensee/regulated entity in remediating deficiencies and requirements.

RISK-BASED SUPERVISION

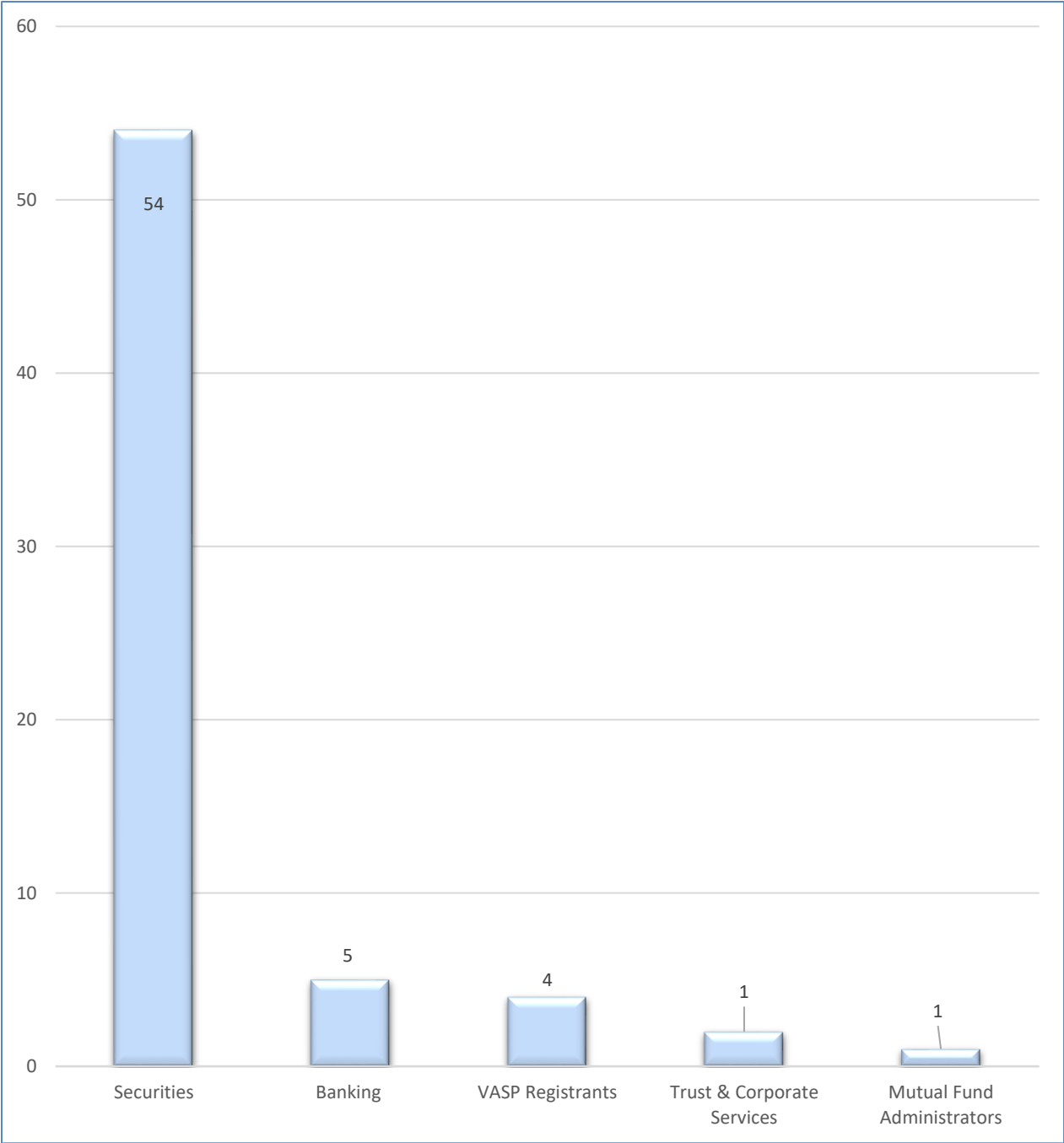
- Information received from other regulatory authorities. Regulated entities with ongoing or potential non-compliant issues.
- Complaints received against the regulated entity.
- Self-disclosure by a regulated entity of their weak compliance systems.

CIMA uses a supervisory attention matrix to outline the frequency with which supervisory activities will take place, based on the risk rating methodology above. As regulatory risk is identified, the frequency of supervisory activities, including OSIs, increases commensurate with the risk. Follow-up inspections may also be conducted between scheduled OSIs.

2023 ONSITE INSPECTIONS

During 2023, a total of 65 AML/CFT specific OSIs were conducted. The chart below shows the number of AML/CFT OSIs conducted in 2023 per sector.

Table 2: Number of AML/CFT on-site inspections conducted per sector, 2023



DEFICIENCIES AND REQUIREMENTS

The below table shows the number of entities identified as having AML/CFT deficiencies based on 2023 OSIs.

Category	Number of Regulated Entities with AML/CFT Deficiencies	Percent of Total Deficiencies
AML/CFT Programme	2	1%
CDD / KYC Identification Procedures	29	14.5%
Internal Controls	38	12%
Internal Reporting Procedures	7	2%
Officer Appointment	2	1%
Ongoing Monitoring	25	8.5%
Policies and Procedures	13	5.5%
Record Keeping Procedures	15	5.5%
Risk Based Approach	50	35%
Sanctions Programme	40	13%
Training Programme	8	2%
TOTALS		100%

CIMA imposes requirements for non-compliance and actively monitors the licensees and registrants that are identified as having deficiencies. CIMA also uses this data as part of its supervisory risk-based approach, considering the inherent risks of the sector, and applying resources to supervision accordingly. Additionally, CIMA issues guidance to encourage compliance by the regulated entities.

Risk-Based Approach

Deficiencies around the risk-based approach (“RBA”) accounted for 35% of all those identified through onsite inspections in 2023. Issues included:

- Lack of or inadequate evidence of the application of a business RBA as it relates to the size, nature and complexity of the business operations and its client relationships.
- Lack of an updated business risk assessment, inclusive of risk tolerance.
- Inadequate Customer Risk Assessment procedures that demonstrate consideration of all the relevant risk factors before determining the level of overall risk.
- Undocumented or incomplete client risk ratings information.
- Client risk assessments not conducted and/or maintained as part of the ongoing monitoring programme.
- Inadequate country risk assessment which considers the ML/TF/PF and sanctions risks associated with jurisdictions to which it is exposed.
- Inadequate documentation in AML manuals which identifies the procedures to assess the risk that may arise in the development of new products and new business practices.

Customer Due Diligence (“CDD”)

Deficiencies around client identification/know your client (“CDD/KYC”) and verification documentation accounted for 14.5% of all deficiencies identified through onsite inspections in 2023. Issues included:

- Incomplete or inadequate reliable and independent CDD/KYC measures, such as identification verification, and identification of Beneficial Owners
- Inadequate CDD/KYC due diligence as well as failure to perform risk based ongoing monitoring in order to maintain current CDD/ KYC.
- Inadequate enhanced due diligence (“EDD”) for high-risk clients.
- Inadequate customer risk assessments and risk classifications
- Incomplete Politically Exposed Persons (“PEP”) due diligence documents, and lack of evidence of EDD measures being applied.

Sanctions Programmes

Deficiencies around Sanctions programmes accounted for 13% of all those identified through onsite inspections in 2023. Issues included:

- Inadequate evidence of screening all clients and counterparties.
- Inadequate documentation of sanctions screening of all existing and new clients (and all relevant parties) against the Sanctions Lists applicable in the Cayman Islands.
- Inadequate ongoing sanctions monitoring procedures.
- Lack of assessment of one-off transactions and the ongoing monitoring of business relationships for the purposes of preventing proliferation financing.
- Lack of documentation in AML manual detailing its sanctions compliance obligations, such as the timely filing of Compliance Reporting Forms to the Financial Reporting Authority.
- Inadequate documentation of sanctions policies and procedures including the applicable sanctions lists in the Cayman Islands and the requirement to freeze funds of a designated person or entity.

Internal Controls

Deficiencies around internal controls accounted for 12% of all those identified through onsite inspections in 2023. Issues included:

- Lack of independent AML/CFT/CPF and Sanctions audit in line with the established audit plan.
- Lack of an audit plan proportionate to the nature, size, complexity, and risks of its business activities.
- Inadequate internal audit procedures, such as incorporating an overall assessment of all AML/CFT/CPF and Sanctions systems and controls.
- Lack of evidence of a customer file remediation of its customer population to ensure that all agreements are signed for all its customers.
- Lack of evidence of the Board's oversight of the audit function.

THEMES FROM 2023 AML/CFT INSPECTIONS

Ongoing Monitoring

Deficiencies around ongoing monitoring accounted for 8.5% of all those identified through onsite inspections in 2022. Issues included:

- Lack of periodic client file remediation to ensure that documents, data, or information collected under the CDD process are kept current and relevant.
- Lack of ongoing monitoring procedures including periodic review timeframe and procedures.
- Inadequate documentation evidencing that transactions are monitored throughout the course of the business relationship.

In Focus: Targeted Financial Sanctions

- In 2023, the AMLD used active supervision and enforcement to help raise standards of sanctions compliance. In 2023, 40 regulated entities were found to have deficiencies around TFS policies and procedures from onsite inspections. This resulted in 54 requirements to remediate.
- CIMA further published a Thematic Supervisory Circular on “TCSPs’ Compliance with AMLRs: TFS Screening Policies and Procedures.” This looked at the 2022 data from 23 TCSPs and 529 customer files and set out findings to help improve standards of compliance in the sector. The results included:
 - The majority of TCSPs had adequate policies and procedures in place for TFS, with 78% having policies which adequately provided for procedures to implement TFS screening at client onboarding and 91% having policies which adequately provided for ongoing monitoring of customers and transactions against the TFS lists.
 - However, only 30% of the TCSPs had effectively implemented their TFS screening policies and procedures across all the client files reviewed.
 - The Authority took prompt and robust steps to remedy these deficiencies, including issuing requirements and (in some cases) initiating enforcement action. FSPs are required to remediate within prescribed timeframes and are monitored by the Authority.

ENFORCEMENT ACTIONS

CIMA is both a prudential and an AML/CFT regulator, and therefore CIMA's powers to impose sanctions through enforcement actions for breaches of AML/CFT (other than administrative fines) are through the operation of its regulatory acts. CIMA's regulatory acts state that where a licensee/registrant has contravened regulatory acts or the AMLRs CIMA may take any of the listed enforcement actions.

A breakdown of enforcement actions for 2023 is as follows:

Sector	Revocations Cancellations	Appointment of Controllers	Winding Up Petitions	Cease Desist/Requirements/Condi- tions	Actions Under the DRLA	Warning Notices	Admin Fines Breach Notices	Admin Fines	Admin (Prudential) Fines	Totals	Enforcement Actions With an AML-CFT Component	No. of AML/CFT Breaches identified	Directors /Controllers found Not Fit and Proper	Shareholders found Not Fit and Proper
Banking	1	0	0	0	0	4	0	0	0	5	3	0	0	2
Fiduciary	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	5	0	0	0	5	5	0	4	3
Investments	0	0	0	0	0	1	0	0	0	1	0	0	0	0
Securities	3	0	0	0	4	10	0	0	0	17	2	10	0	0
VASPs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals	4	0	0	0	4	20	0	0	0	28	10	10	4	5

NEW ML/TF DESCRIPTORS WITHIN THE SECTORS

CIMA continued its analysis of quarterly cash flow reporting by banks to better understand the TF risks associated with cross-border threats and collected cash flow information for 2023. These returns are used to monitor payments to high-risk countries, including sudden shifts in the origin and destination of funds.

The implementation of this reporting through Strix, SupTech data collection software, strengthened CIMA's understanding of the jurisdiction's cross-border activities and how this contributes to the overall ML and TF risk. Under the risk-based approach, CIMA applies resources to the review and testing of wire transfers or cross border payments to and from high-risk jurisdictions to determine whether banks are applying sufficient and appropriate CDD procedures, including enhanced due diligence procedures on such payments deemed high risk or by high-risk customers and whether any ad hoc/surprise inspections are needed.

Supervision for Registered Persons

In 2023, CIMA continued its comprehensive AML/CFT supervision of its population of 1,572 Securities Investment Business Registered Persons ("SIB RPs"), including undertaking fitness and propriety checks, onsite inspections and taking enforcement action where required.

CIMA completed risk-based inspections for 47 SIB RPs to evaluate their AML/CFT policies, procedures, systems, and controls. CIMA issued 297 requirements to SIB RPs during 2023, including 295 'Matters Requiring Immediate Attention'.

During 2023, CIMA processed 183 de-registrations and issued 18 Breach Letters where contravention of Acts and Regulations were identified.

VIRTUAL ASSET SERVICE PROVIDERS

CIMA is the appointed supervisor for Virtual Asset Service Providers (“VASPs”) in the Cayman Islands. The Virtual Asset (Service Providers) Act (2022 Revision) (“VASP Act”) governs the regulation of virtual asset activities which are taking place in or from the jurisdiction. The VASP Act provides for different categories of authorisation (registration, licensing, and sandbox) depending on the risk of the type of activity that will be conducted. In 2023, CIMA registered three (3) VASPs, making the total 19 as of 31 December 2023. Applications continue to be reviewed including an assessment of the applicant’s AML/CFT/CPF systems and controls, inherent risks, open-source information, and closed source intelligence.

A breakdown of types of services offered by registered VASPs is as follows:

Breakdown of Types of Services Offered by registered VASPs	2023
Trading Exchange and Platform	4
Custody Services	9
Issuance of Virtual Assets	2
Virtual Currency to Virtual Currency/Fiat Conversion	11
Participating in financial services relating to virtual assets	7

CIMA continued work on “policing the perimeter” to identify entities that may be engaged in virtual asset business but failed to register with the Authority. CIMA issued directions to entities potentially operating as VASPs pursuant to Section 34(8) of the Monetary Authority Act to provide further information to the Authority. These entities either proceeded to register with the Authority or confirmed that they were not - or were no longer - VASPs.

Further, in 2023 CIMA commenced its onsite inspection programme for four (4) VASP entities. The onsite inspection team, comprising members from the AMLD, the VASP and Fintech Innovation Unit, and the Onsite Inspection Unit, conducted in-person on-site examinations of these VASPs. The examination scope included the assessment of the adequacy of the entities’ policies and procedures to the prescribed requirements for their cybersecurity and AML/CFT programmes, including the Travel Rule reporting obligations. CIMA also worked closely with the Ministry of Financial Services in relation to the ongoing development of the full prudential licensing framework for VASPs.

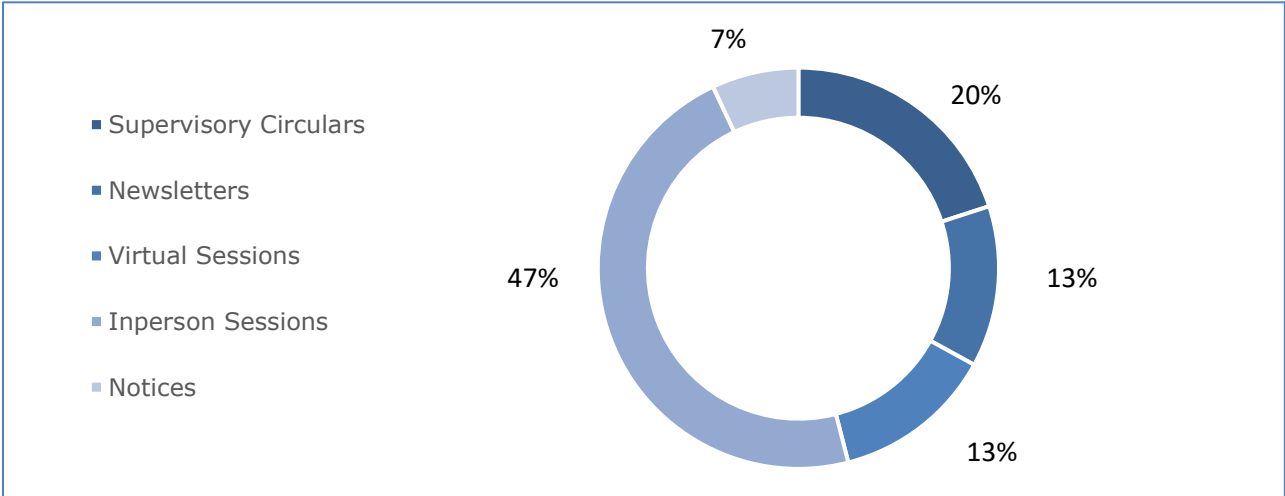
OUTREACH ACTIVITIES

Outreach

The Authority continued its commitment to raise AML/CFT compliance awareness and standards through outreach activities. Outreach activities were hybrid, with some still being presented virtually for practical reasons. CIMA presented on topics including:

- Effective compliance by SIB RPs
- Beneficial Ownership requirements
- Travel Rule requirements
- Updates on the jurisdiction’s progress following its “grey listing” by FATFE-KYC and remote CDD: challenges and compliance
- TCSP Sanctions Compliance
- Common deficiencies from OSIs and enforcement
- Being prepared for OSIs
- VASPS: AML/CFT challenges in supervision
- Effective AML/CFT policies & procedures

Presentations were either conducted by CIMA, in collaboration with other Cayman Islands Government Agencies or at industry-led virtual conferences and outreach sessions (for example, ACAMs, GAIM Ops and the Cayman Islands Compliance Association). CIMA also published a number of Advisories, Notices, Circulars and Newsletters. The chart below shows the different types of outreach activities conducted in 2023.



OUTREACH ACTIVITIES

Training

CIMA has expanded its training mandate and is providing greater levels of training on various aspects of AML/CFT supervision to staff members across all levels in all divisions resulting in staff participating in over 400 training sessions through conferences, numerous webinars, and internal training. CIMA continues to provide a mandatory e-learning pack for staff through a software tool, 'KnowBe4'.

FUTURE AML/CFT/CPF OBJECTIVES AND OUTLOOK

CIMA will continue its oversight of AML/CFT obligations to promote and safeguard the integrity of the Cayman Islands financial services industry. CIMA will continue to utilise and expand upon the use of Strix to drive data-led AML/CFT supervision. CIMA will also continue its work tracking deficiencies, requirements and remediation to assess entity compliance with CIMA's findings and ensure prompt and consistent escalation to enforcement where required. CIMA will use this analysis to identify trends, systemic problems and areas of risk, as well as to evaluate its own effectiveness.



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