



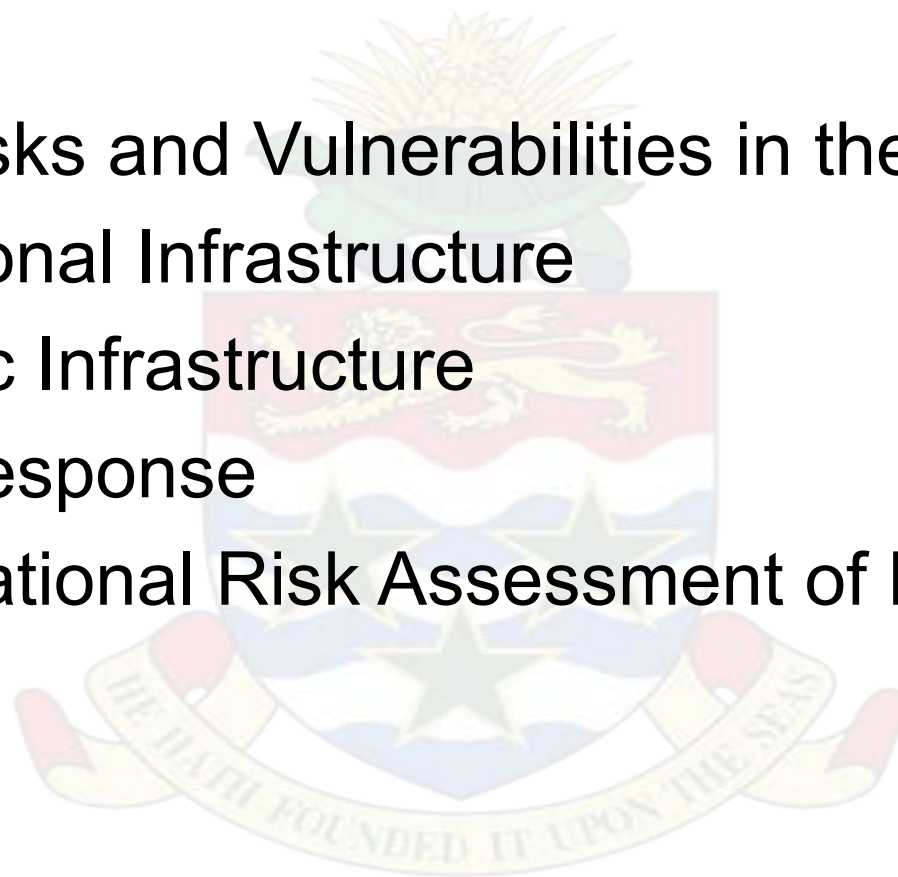
CAYMAN ISLANDS
GOVERNMENT

NATIONAL COORDINATOR
ANTI-MONEY LAUNDERING STEERING GROUP

AML/CFT National Coordination

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- Financial Crime Risks and Vulnerabilities in the Legal Profession
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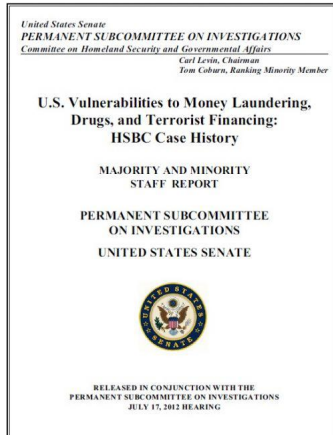


AML Risks in the Cayman Islands



Bruce Blake et al: Press Release - Criminal Charges

Criminal charges of corruption, false accounting, and money laundering against Bruce Blake and Canover Watson, both former senior officials with the Cayman Islands Football Association.

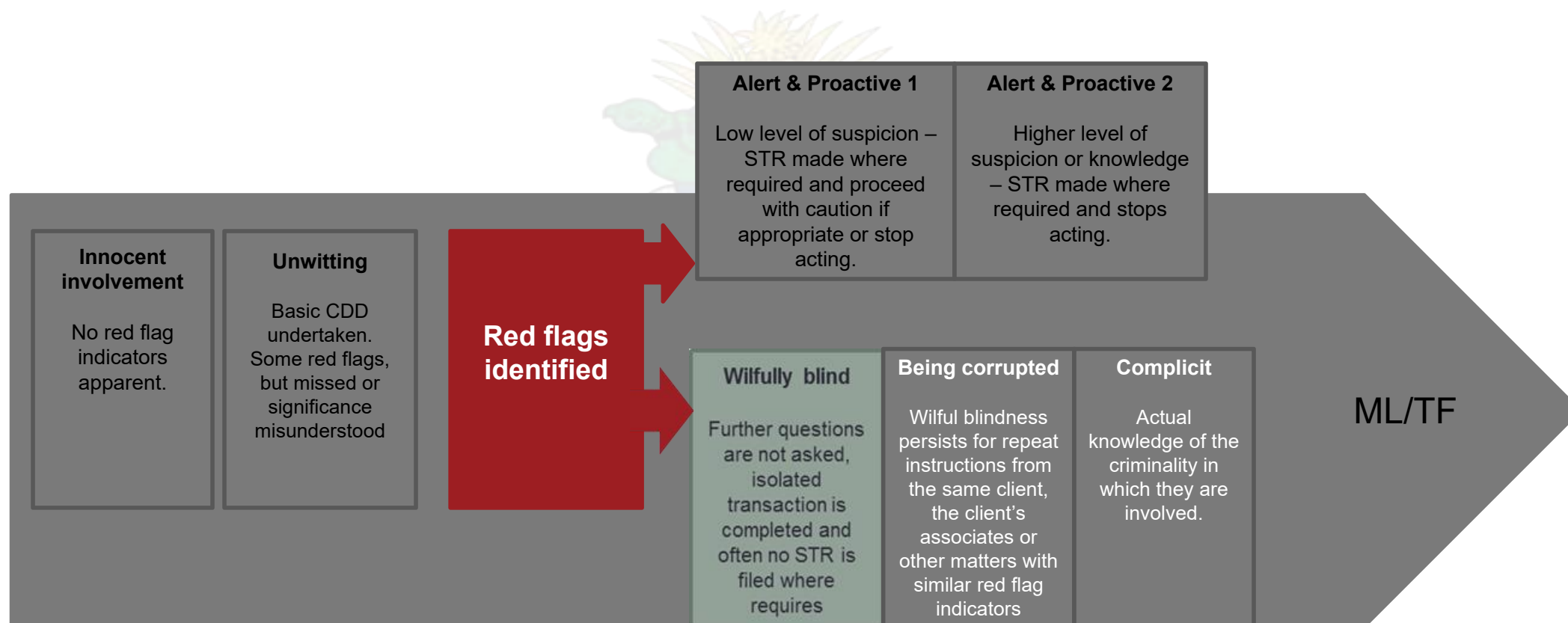


Cayman crypto firm Kowala sued for securities fraud in California

Securities fraud in California regarding 'tokens' known as kCoin for which the defendants allegedly raised more than \$3 million but never launched.



Involvement of Legal Professionals in money laundering and terrorist financing (ML/TF)



Source: FATF: ML/TF Vulnerabilities of Legal Professionals, June 2013

Use of client account without underlying legal services provided

- An employee working in a very small law firm in Australia received an email from a web-based account referring to a previous telephone conversation confirming that the law firm would act on the person's behalf.
- The 'client' asked firm to accept a deposit for purchase of machinery.
- The firm's bank account details were provided, the funds arrived and the 'client' asked that the money be transferred as soon as possible to the London bank account after costs and transfer fees were deducted. No legal work was actually undertaken. The transfer of the funds to the law firm was an unauthorised withdrawal from a third party's account.
- The Office of the Legal Services Commissioner (OLSC) in Australia found:
 - the law firm had failed to ensure that the identity and contact details of the individual were adequately established
 - The law firm failed to take reasonable steps to establish the purpose of the transaction and failed to enquire into the basis for the use of the client account
 - The firm was reprimanded

Legal Professional deliberately structures transactions to avoid reporting threshold in property case

- An Australian solicitor acting on behalf of investigated individual was heavily involved in money laundering through property and other transactions.
- The solicitor organised conveyancing for the purchase of residential property and carried out structured transactions in an attempt to avoid detection.
- The solicitor established trust accounts for the individual under investigation and ensured that structured payments were used to purchase properties and pay off mortgages. Solicitor also advised individual to place structured payments into his trust account for payment

Legal Professional removed from practice after ignoring red flag indicators on an aborted transaction

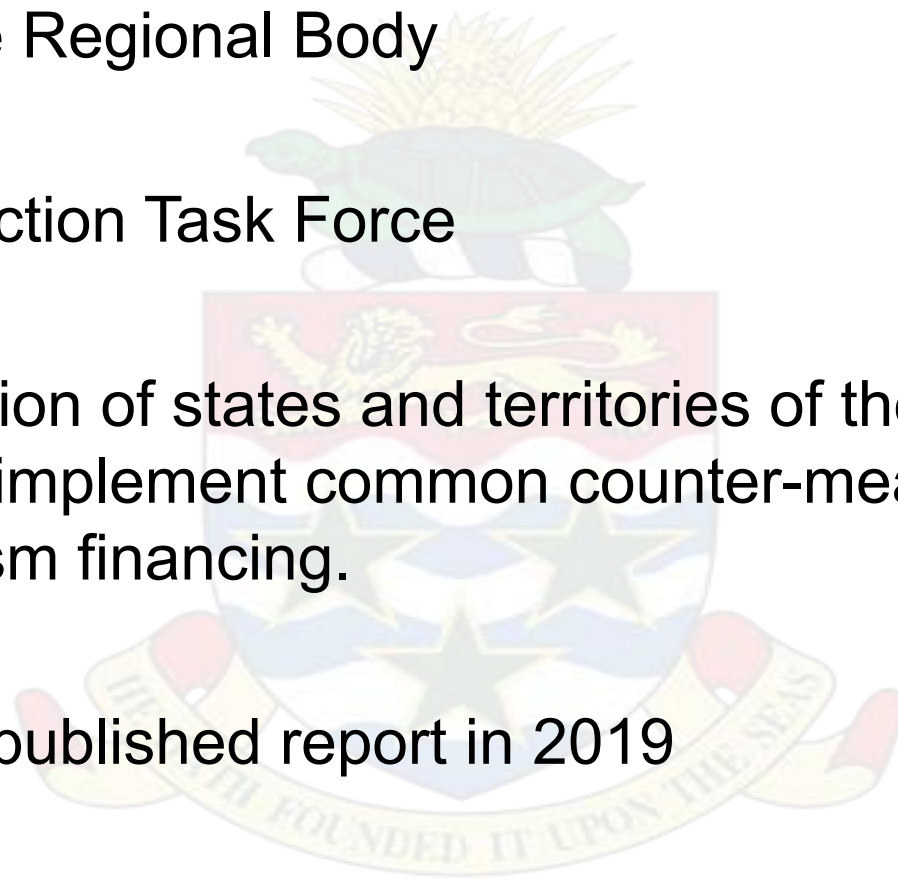
- In 2008 the solicitor received instructions from an individual to purchase property on behalf of other clients, who provided funds for the purchase prior to the solicitor indicating the need for the funds to be deposited.
- The solicitor did not meet the clients, undertake due diligence checks or obtain instructions in writing.
- The funds came into the client account, the transaction was cancelled and there was a request to provide funds to a third party, all on the same day

What is FATF?

- FATF is an inter-governmental body established in 1989
- Objectives are: to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.
- 40 FATF Recommendations (+ 11 Immediate Outcomes) - recognised as **the** international standard AML/CFT
- Monitors progress of its members in implementing necessary measures
- FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.

What is CFATF

- 9 FSRBs – FATF Style Regional Body
- Caribbean Financial Action Task Force
- CFATF is an organisation of states and territories of the Caribbean basin which have agreed to implement common counter-measures against money laundering and terrorism financing.
- Assessed CI in 2017, published report in 2019



Two parallel processes

CFATF: Enhanced Follow Up

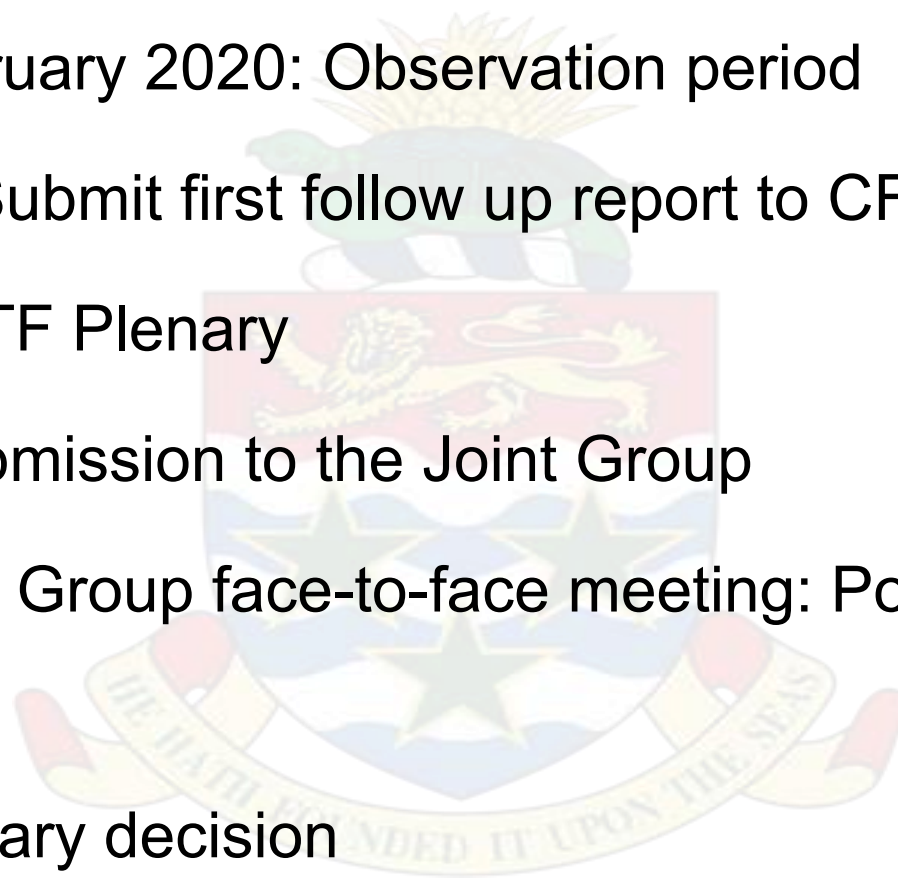
Effectiveness and technical deficiencies

FATF ICRG: The Cayman Islands falls into observation period for automatic monitoring

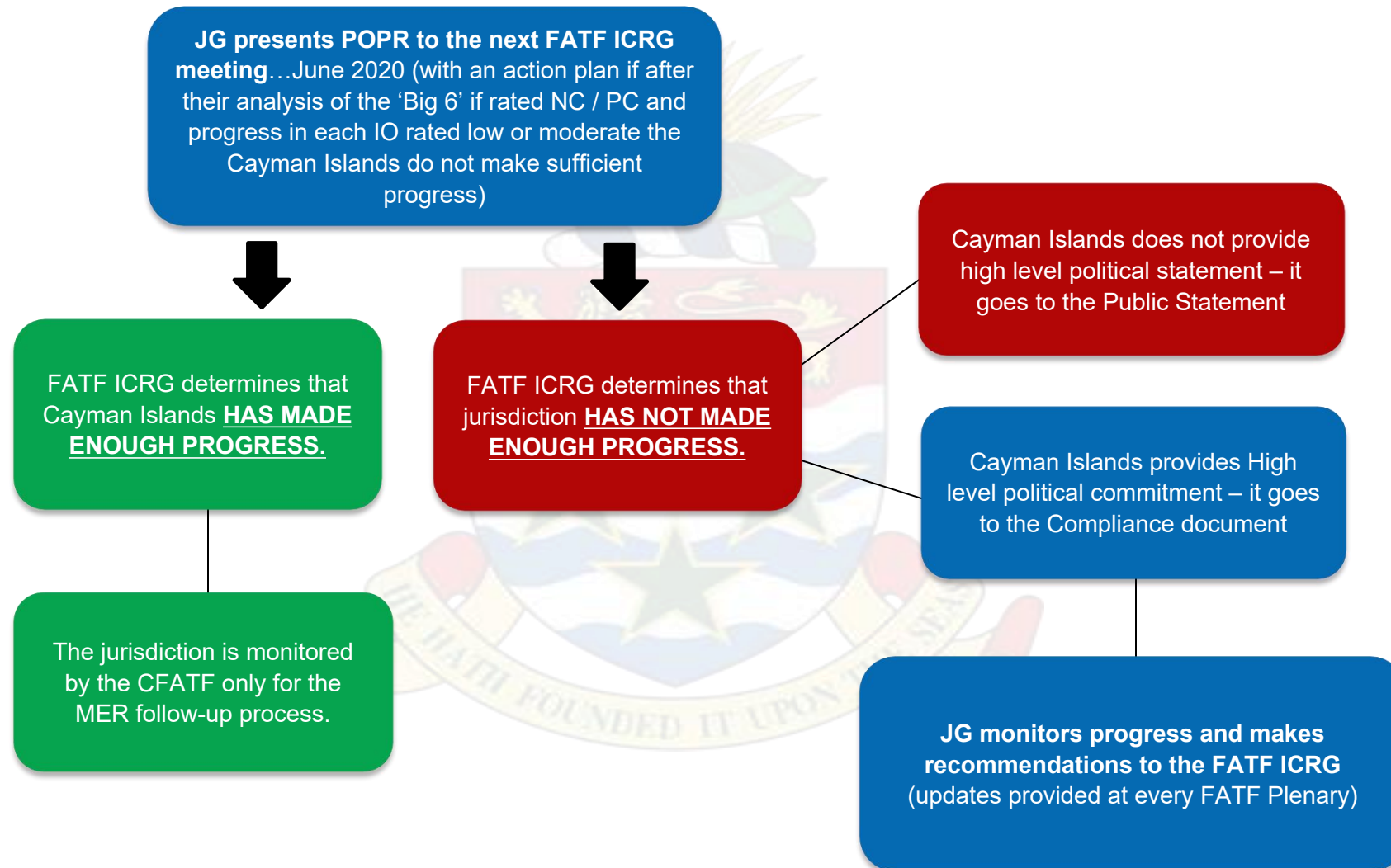
- Effectiveness: Low or moderate level of effectiveness for 9 or more of the 11 Immediate Outcomes, with a minimum of two lows
- Threshold: USD 5 billion in financial sector assets MR2 now, MR3

The Timeline

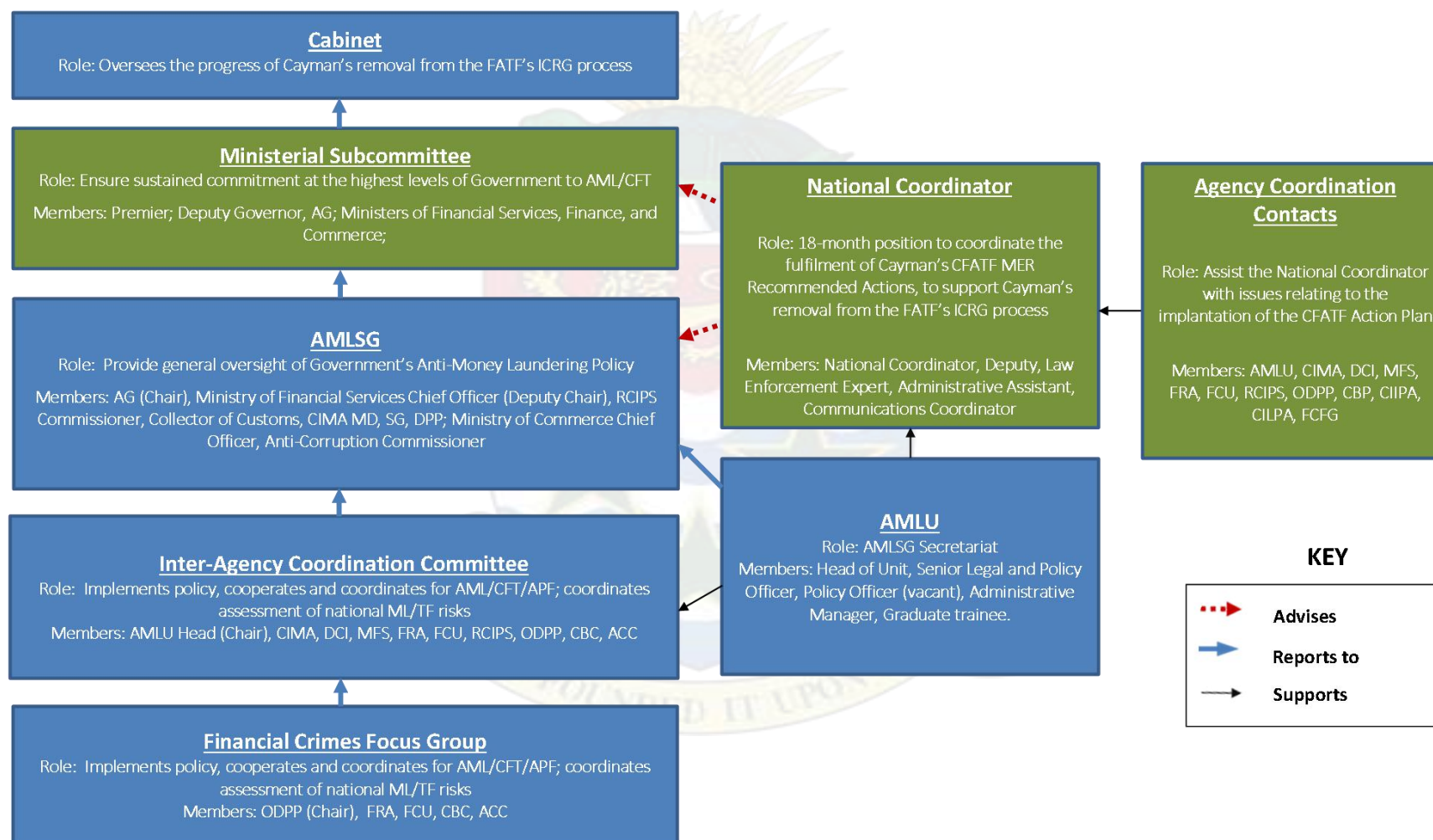
- February 2019 to February 2020: Observation period
- 24 September 2019: Submit first follow up report to CFATF
- November 2019: CFATF Plenary
- March 2020: Initial submission to the Joint Group
- April / May 2020: Joint Group face-to-face meeting: Post-Observation Period Report
- June 2020: FATF Plenary decision



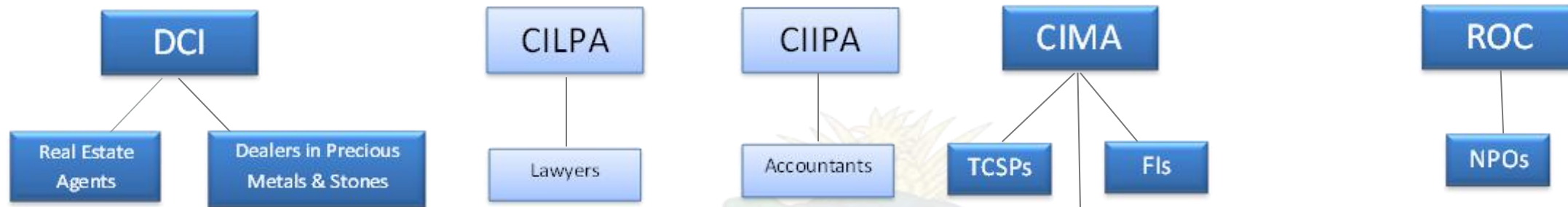
FATF PLENARY JUNE 2020



Cayman Islands Government Organisational Structure in relation to the implementation of AML / CFT / PF measures May 2019



Supervisors and Law Enforcement Agencies



Supervisory Forum
Members: CIMA, CILPA, DCI, CIIPA

FRA

The FRA is the financial intelligence unit of the Cayman Islands and is responsible for receiving and analyzing SARs and making onward disclosures.

FCU

Unit within the RCIPS that is responsible for investigating financial crimes and tracing, freezing and recovering the proceeds of crime.

CBC

Protects Cayman Islands' borders against threats.

ACC

Investigates reports of corruption, liaise with overseas anti-corruption authorities, and obtain court orders to freeze the assets of those suspected of committing corruption offences.

ODPP

Responsible for all criminal proceedings brought within the Cayman Islands.

TIA

Competent authority for international cooperation in the exchange of information established under the Tax Information Authority Law.

JIU

Composed of officers from the RCIPS, CBC and other public authorities to gather and disseminate intelligence.

SC

FCWG

Members: ODPP, FRA, FCU, CBC, ACC

PIAG

Members:
CIMA, ODPP, SG, FRA, CBC,
FCIU, DCI, GR, MFS, MACI

National Coordination Team

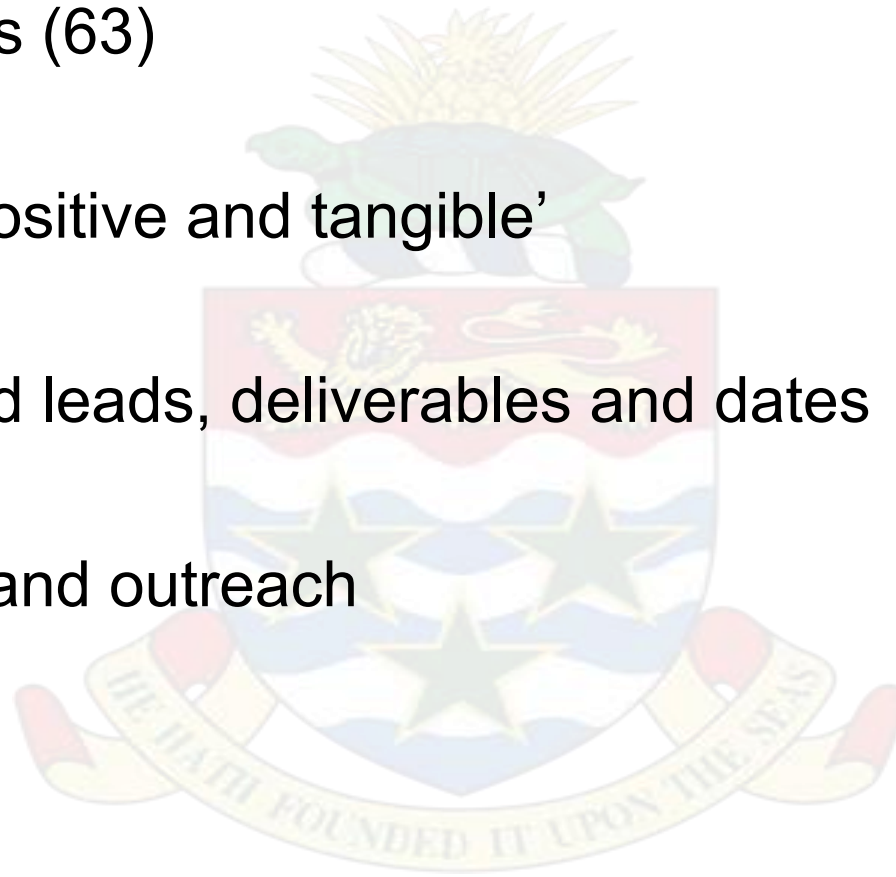
- CIG created a temporary National Coordination Team, for an eighteen month period
- NCT coordinates the fulfilment of Cayman's CFATF MER Recommended Actions and supports Cayman's removal from the FATF's ICRG process.
- NCT assists competent authorities in progressing the implementation of the Strategy, and monitors the overall, consolidated progress of implementation efforts for the jurisdiction.
- The NCT reports to the Inter-Ministerial Sub-Committee of Cabinet.

National Coordination Team – What We Do

- Support Law Enforcement and Supervisory Agencies in implementing the recommendation of the MER
- Receive and analyse monthly progress reports from agencies
- Advise on gaps in implementation
- Providing direction, advice and guidance to agencies on technical matters
- Organizing coordinated outreach to industry and the public

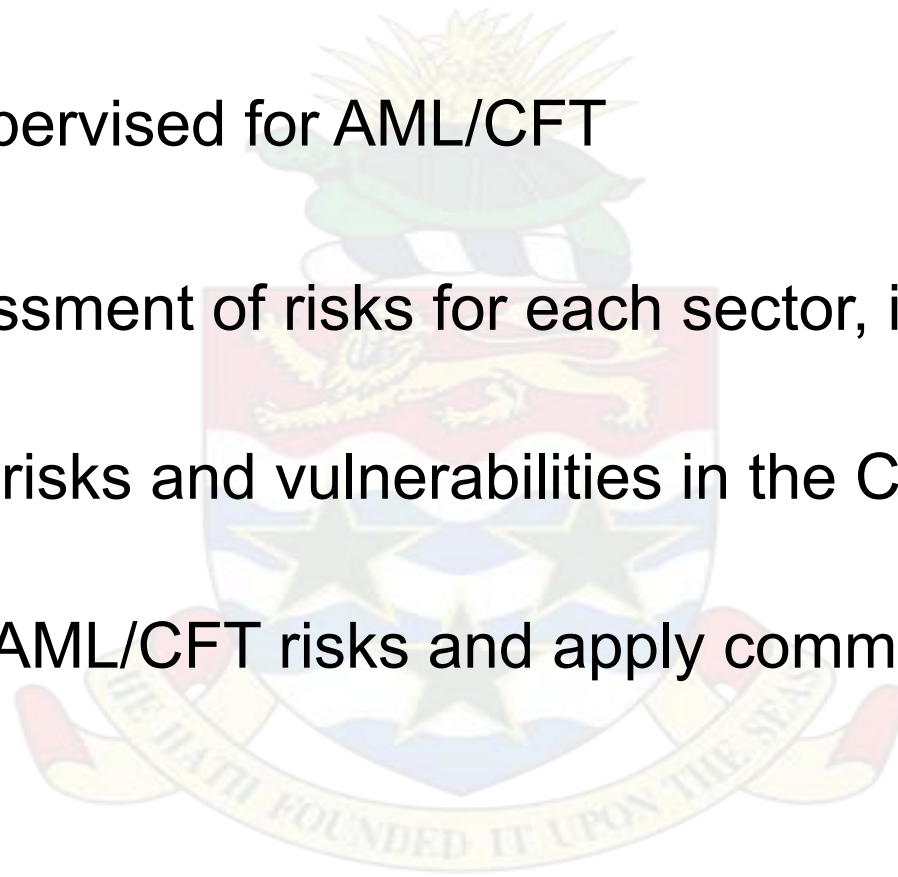
The Action Plan

- Recommended Actions (63)
- Sufficient Progress, 'positive and tangible'
- Identified agencies and leads, deliverables and dates
- Industry engagement and outreach



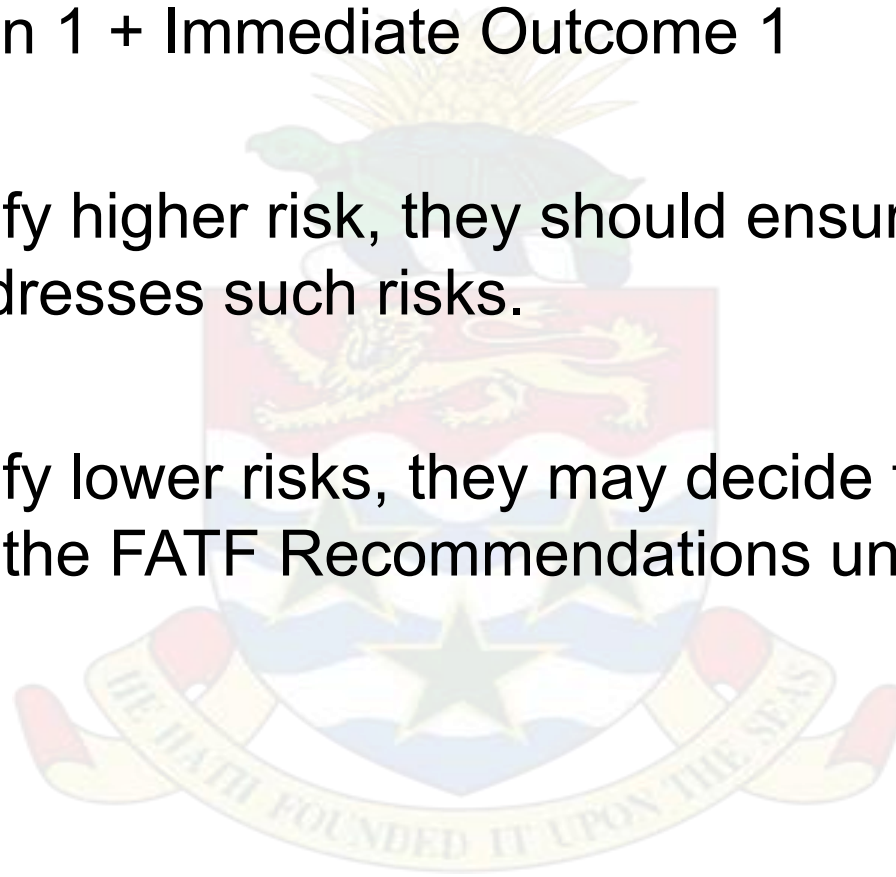
Recommended Actions relating to the Legal Profession

- Lawyers should be supervised for AML/CFT
- Country must do assessment of risks for each sector, incl. legal profession
- Understand AML/CFT risks and vulnerabilities in the Cayman Islands
- Understand their own AML/CFT risks and apply commensurate controls
- Comply with sanctions



Risk Based Approach

- FATF Recommendation 1 + Immediate Outcome 1
- Where countries identify higher risk, they should ensure that their AML/CFT regime adequately addresses such risks.
- Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.



5 Risk Areas

- 1. Nature and complexity of business
- 2. Geography
- 3. Products and Services
- 4. Clients
- 5. Delivery Channels



5 Risk Areas – Nature and Complexity of Business

Examples:

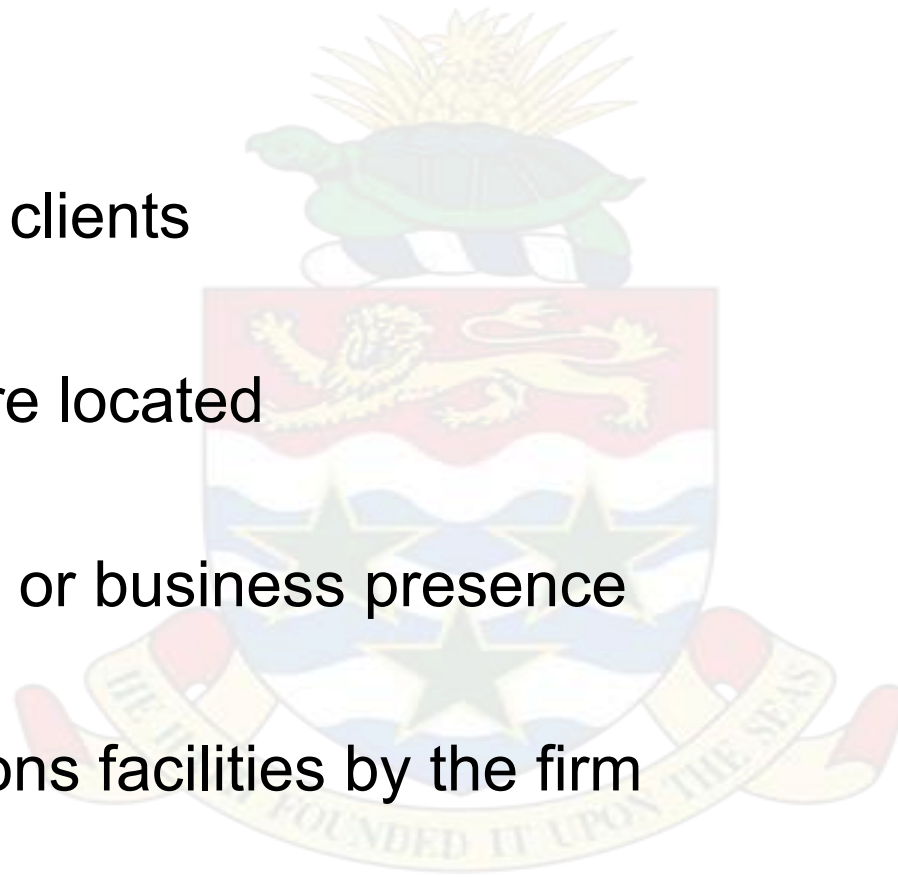
- Sole practitioner vs large domestic firm vs multinational firm
- Staff #
- Clients #
- Number, diversity and complexity of services



5 Risk Areas – Geography

Examples:

- Where does firm have clients
- Where firm affiliates are located
- Where firm has offices or business presence
- International transactions facilities by the firm



5 Risk Areas – Products and Services

Examples:

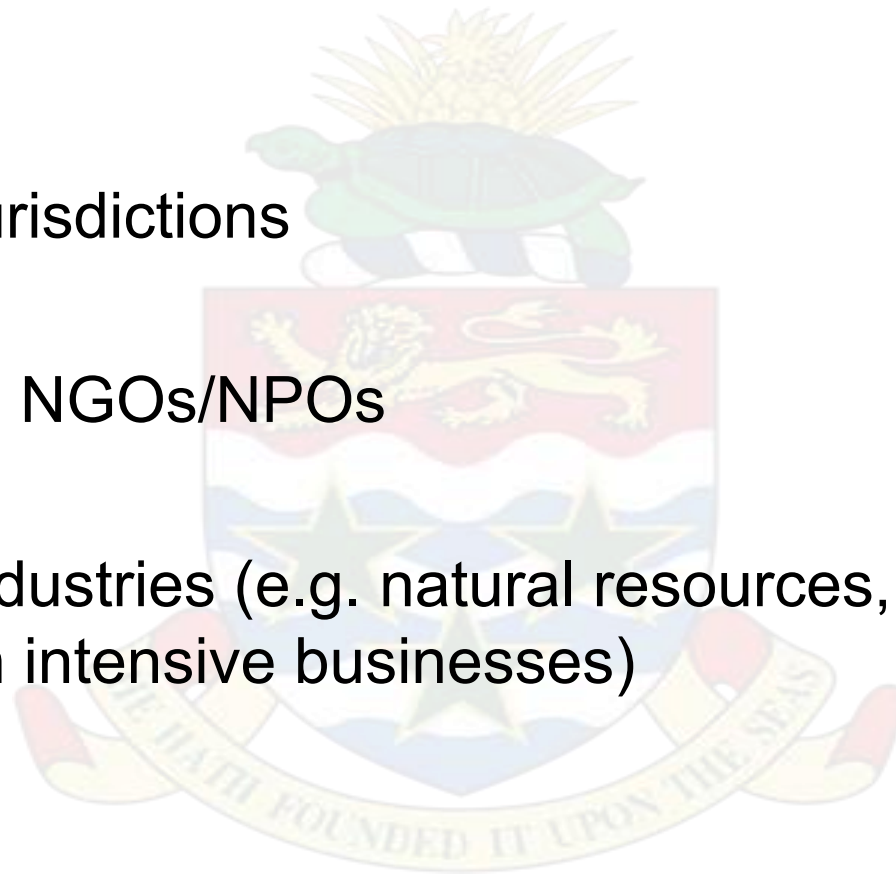
- Real Estate Transactions
- Structuring Legal Persons and Arrangements
- Management of client money
- Securities transactions
- Buying/selling of companies
- Receiving or transferring funds



5 Risk Areas – Client Risk

Examples:

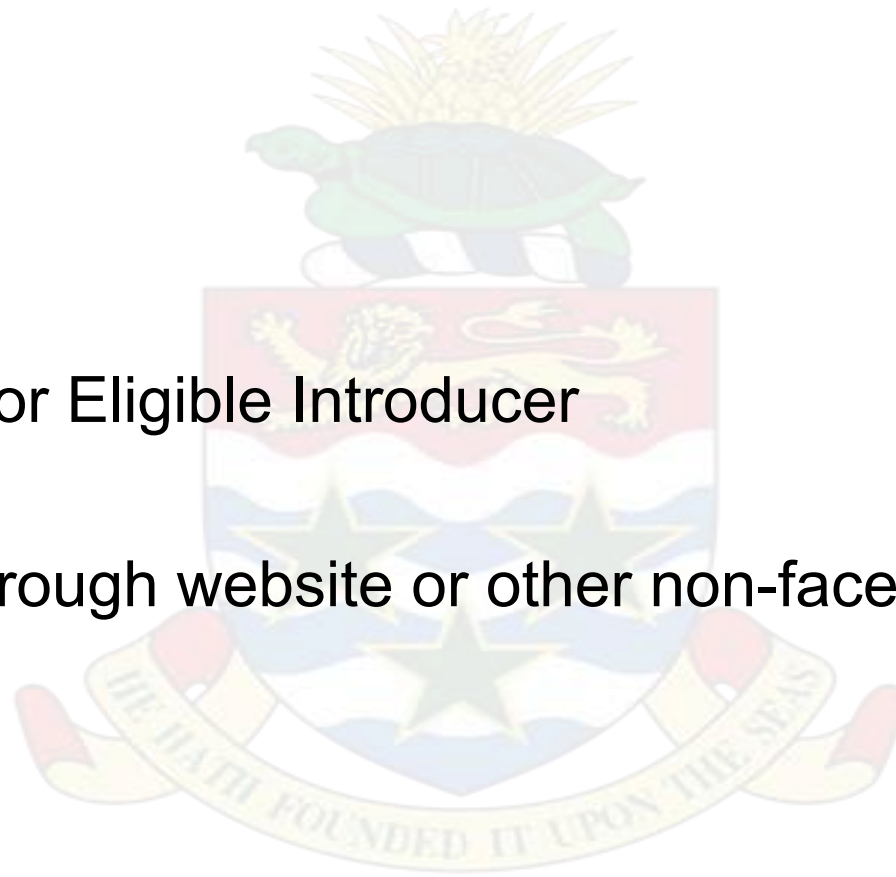
- Clients in High Risk Jurisdictions
- Clients who are PEPs, NGOs/NPOs
- Clients in High Risk Industries (e.g. natural resources, online businesses, crypto, gambling, cash intensive businesses)



5 Risk Areas – Delivery Channels

Examples:

- Face to Face only
- Through intermediary or Eligible Introducer
- Direct client contact through website or other non-face to face means



Next Steps

- Cayman's First Follow-Up Report due to CFATF September 24th 2019
- CILPA/CARA registration – August 2019
- CARA Staff commence in September 2019
- CARA Conduct Sectorial Risk Assessment Based on Registration Questionnaire
- CARA Conduct Individual Firm Risk Assessment (based on Questionnaire)
- CARA Active Supervision/Onsite Inspections



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