



**MONEY LAUNDERING, TERRORIST FINANCING,
PROLIFERATION FINANCING RISK ASSESSMENT RELATING TO
LEGAL SERVICES IN THE CAYMAN ISLANDS**

October 2020

I. Purpose

The purpose of this risk assessment is to outline the money laundering, terrorist financing and proliferation financing risks identified and assessed as being relevant to the legal sector of the Cayman Islands.

Money laundering ("**ML**") is the means by which criminals make criminal property appear legitimate. Terrorist financing ("**TF**") is the means by which terrorists are provided with finance or financial support for terrorism. Proliferation financing ("**PF**") is the means by which funds or financial services are used for the unlawful manufacture, acquisition, possession, development, export, and/or transshipment of nuclear, chemical or biological weapons.

Specifically, the aim of this risk assessment is to identify and assess the risks/likelihood of Cayman Islands attorneys-at-law being utilised for ML/TF/PF purposes.

II. Supervisory Authority

The Cayman Islands Legal Practitioners Association ("**CILPA**") is the professional representative body for attorneys-at-law in the Cayman Islands. Pursuant to a Cabinet decision made on 19 February 2019 and in line with the constitutional documents of CILPA, the Cayman Islands Government granted CILPA the power to act as a supervisory authority in accordance with section 4(9) of the Cayman Islands Proceeds of Crime Law (2019 Revision) (as amended) and in accordance with section 55B(c) of the Cayman Islands Anti-Money Laundering Regulations (2018 Revision) (as amended) (the "**Regulations**"). The CILPA council constituted the Cayman Attorneys Regulation Authority ("**CARA**") as a committee of CILPA, with its own independent board and governance structure by adopting the CARA Regulations. In accordance with CILPA's constitutional documents and the CARA Regulations, CILPA has delegated the statutory powers and duties to supervise and enforce on anti-money laundering ("**AML**"), counter-terrorism financing ("**CFT**") and counter-proliferation financing ("**CPF**") compliance matters to CARA.

III. Responsibilities of CARA

In accordance with the Regulations, law firms conducting relevant financial business ("**Supervised Firms**") are required to register with CARA, comply with the requirements under the Regulations and be supervised by CARA in respect of such compliance.

By publishing this risk assessment in relation to the legal sector risks, this document should be used by Supervised Firms to assist in preparing and/or updating their practice-wide risk assessments in accordance with Regulation 8 of the Regulations. This risk assessment will also be used to inform CARA's approach to its supervisory and enforcement strategy.

IV. Risk Assessment Sources

This sector specific risk assessment is based on the following sources of information:

- a. the in-depth knowledge of Cayman Islands attorneys-at-law and the staff of CARA with extensive understanding of ML/TF/PF risks;
- b. the Cayman Islands National Risk Assessment ("**NRA**") conducted in 2015 with summary results published in November 2017;

- c. 'A Lawyer's Guide to Detecting and Preventing Money Laundering' a collaborative publication of the International Bar Association, the American Bar Association and the Council of Bars and Law Societies of Europe in October 2014;
- d. the Financial Action Task Force ("FATF") risk-based approach guidance for legal professionals, published in June 2019;
- e. the Cayman Islands Terrorist Financing National Risk Assessment dated February 2020;
- f. the Cayman Islands Monetary Authority's Sector Specific Risk Assessments dated March 2020;
- g. the National Risk Assessment of Money Laundering and Terrorist Financing (ML/TF) – Excluded Persons under the Securities Investment Business Law dated February 2020;
- h. the Terrorist Financing Risk Assessment for the NPO Sector in the Cayman Islands dated February 2020;
- i. the National Risk Assessment of Money Laundering and Terrorist Financing (ML/TF) in the Special Economic Zone dated February 2020; and
- j. Key Findings of the Legal Persons and Arrangements Risk Assessment published May 2020.

This sectoral risk assessment published by CARA will be updated on a regular basis to reflect, for example, emergent risks and trends. Additionally, as the supervisory and enforcement strategy of CARA is further developed and information is collated from Supervised Firms, this risk assessment will be updated.

V. Application to the Cayman Islands Supervised Firms

In accordance with the Regulations, Supervised Firms include:

- a. a body, corporate, association, partnership or limited liability partnership of attorneys who are admitted to practice law in the Cayman Islands; or
- b. an attorney admitted to practice law in the Cayman Islands who is in independent practice as a sole proprietor or who provides legal services to an employer other than the Government.

The Regulations place an obligation on Supervised Firms on the basis that Supervised Firms are most likely to be targeted by those wishing to commit financial crimes.

Mandated registration under the Regulations reduces the ML/TF/PF risks. The Regulations require Supervised Firms to: (a) implement appropriate policies and procedures; (b) comply with due diligence and record keeping requirements; (c) make employees aware of the policies and procedures and relevant legislative enactments; (d) provide training; and (e) designate an anti-money laundering compliance officer, money laundering reporting officer and deputy money laundering reporting officer.

However, it is important to note that, pursuant to the Proceeds of Crime Law (2019 Revision) (as amended), the Terrorism Law (2018 Revision), and the Proliferation of Financing (Prohibition) Law (2017 Revision), all Cayman Islands law firms, whether supervised or not, have obligations to report on suspicion or knowledge of ML/TF/PF and therefore must have adequate measures in place to detect financial crimes relating to ML/TF/PF. Even though law firms that are not Supervised Firms will not be required to implement the measures set out in the Regulations, such firms should ensure that each client, client

structure and client transaction is clearly understood to ensure compliance with such reporting obligations.

All legal services remain attractive to criminals because they can be used to gain legitimacy, transfer value and/or maintain anonymity. Therefore, there is the potential for the services of any law firm to be misused for ML/TF/PF purposes. However, this risk assessment aims to highlight types of activities which represent consistent ML/TF/PF risks in the Cayman Islands.

VI. National Risk Assessment

The NRA identified that the Cayman Islands must deal with internal and external threats including international and domestic threats of fraud, tax evasion, drug trafficking, theft and corruption.

In relation to the legal sector, the summary results of the NRA stated the following:

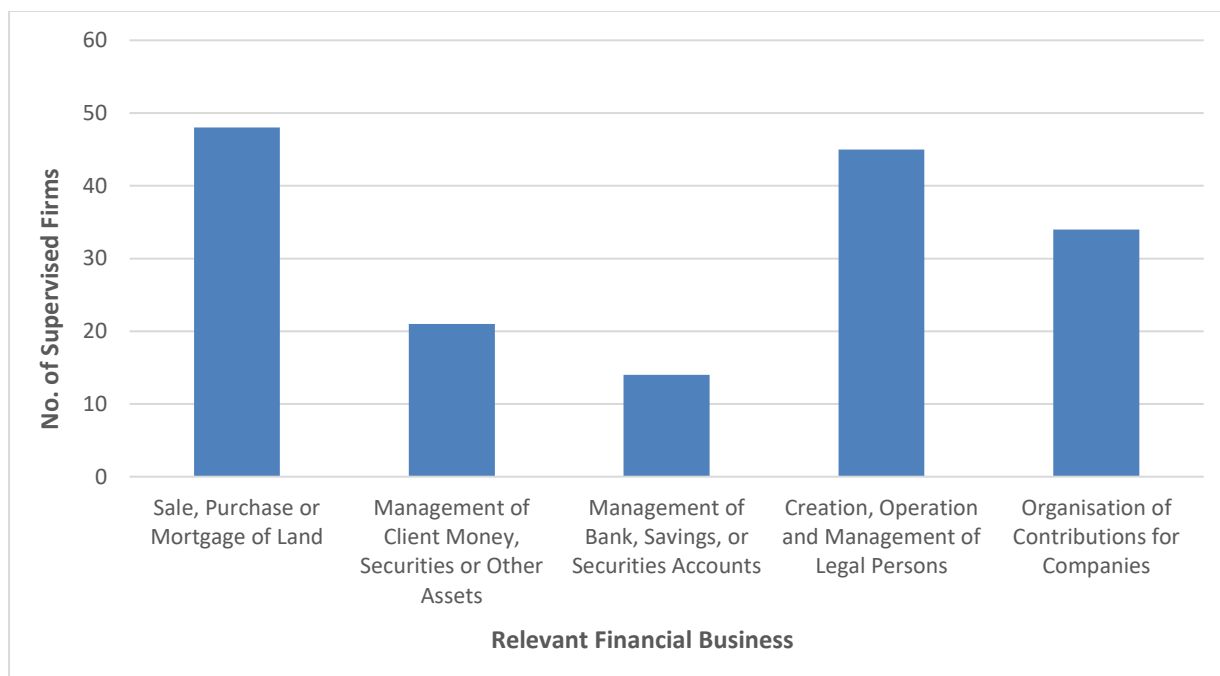
“As it relates to lawyers, their vulnerability was assessed at 0.56 or medium. Lawyers are obliged to follow the existing AML/CFT regime of the Cayman Islands, and to comply with “know your customer” requirements when conducting relevant financial business, and to report suspicious activity to the FRA (with the exception of information subject to legal privilege). However, there were some aspects of the work of lawyers that did not fall within “relevant financial business” at the time of the assessment, and instead they would have relied on voluntary adherence to the Code of Conduct of their industry associations. While the incidence of cash transactions and the use of cash by clients to pay for services is virtually non-existent, the significant volume of complex cross-border structured products and unregulated entities makes lawyers vulnerable.”

VII. Size, Nature and Complexity of the Cayman Islands Legal Sector

The Cayman Islands legal sector consists of a range of practices. As at 7 October 2020, there were 59 Supervised Firms which included 23 sole practitioners, 20 general partnerships, and 16 companies. These figures also represented 39 firms with a domestic practice and 20 firms with multi-jurisdictional practices and/or internationally affiliated.

The NRA identified the breadth of legal services provided in the jurisdiction as including investment funds (hedge and private equity), banking and finance, insurance, wealth structuring and management, including cross border transactions, capital markets, trusts and corporate services, restructuring, insolvency, dispute resolution, litigation, conveyancing, family law and criminal law.

The below chart provides a breakdown of the number of Supervised Firms across the Cayman Islands conducting ‘relevant financial business’. The breakdown is as follows: 81% of Supervised Firms are providing legal services relating to the sale, purchase or mortgage of land or interests in land on behalf of clients or customers; 36% of Supervised Firms are providing legal services relating to the management of client money, securities or other assets; 24% of Supervised Firms are providing legal services relating to the management of bank, savings or securities accounts; 76% of Supervised Firms are providing legal services relating to the creation, operation or management of legal persons or arrangements, and buying and selling of business entities; and 58% of Supervised Firms are providing legal services relating to organization of contributions for the creation, operation or management of companies.



The Cayman Islands operates as an international financial hub. Cayman vehicles are involved with large volumes of transactions flowing through entities domiciled in the jurisdiction. As part of the wider international financial system, the jurisdiction will see a range of market actors seeking to use Cayman Islands vehicles for a wide number of purposes.

While there are Supervised Firms with a significant domestic client base, many firms maintain practices in which the vast majority of their clients come from outside the Cayman Islands, and many practices have clients from all over the world. Supervised Firms reported significant client presence from other jurisdictions such as the United States, Canada, the United Kingdom, Hong Kong, China, Switzerland and Singapore. This statistically increases firm's exposure to ML/TF/PF risks as potential business may come from higher-risk jurisdictions.

Likewise, the compatibility of Cayman Islands vehicles with a wide range of underlying operational activities means that participants from potentially higher-risk sectors may choose to utilise those vehicles (alongside those from medium or low risk sectors).

VIII. Risk Assessment

The core dangers and vulnerabilities facing the legal sector, as outlined by the FATF, have a degree of universality to them, irrespective of jurisdiction. Attorneys-at-law must always be cognizant of those circumstances where they are directly effectuating transactions, either when providing legal services or when acting in another capacity (such as trustee), wherever they are located.

While the attorney-client relationship is often usually purely advisory, in other circumstances, attorneys-at-law (irrespective of location) directly acquire or transfer assets on behalf of their clients such that they are effectuating transactions whereby funds flow through the financial system. This can occur when the attorney-at-law:

- is acting in a representative role;

- is exercising a power of attorney;
- is acting in a management capacity (such as trustee where they are empowered to effectuate a broader range of transactions); or
- is making their client account available for purposes other than for payment of services provided.

Further, there are circumstances where legal advice can be deemed to effectuate transactions when an attorney takes the lead role incorporating entities or drafting documents with operative legal effect in the jurisdiction. This can also occur where the attorney effectuates a settlement for what turns out to be ‘sham litigation’.

The inherent vulnerabilities of the legal profession are illuminated and heightened by the jurisdictional vulnerabilities facing the Cayman Islands. These have been identified by the NRA as primarily being the risk that the Cayman Islands' financial system could be used as a conduit for the proceeds of financial crime generally, and fraud, tax evasion and drug trafficking specifically.

These threats all primarily involve the commission of crimes abroad and the decision to funnel those proceeds through structures, transactions and accounts in the Cayman Islands, with the most significant danger for the legal community being the direct participation of attorneys-at-law in that movement of funds through their own involvement in such transactions and the usage of their accounts.

Since the types of clients that will likely be seen in the Cayman Islands, and the transactional context of the services that will be provided may be diverse and complex, attorneys-at-law may be less likely to identify when their client account is being misused or when the position of responsibility they are assuming (such as trustee or attorney-in-fact) entails an arrangement that has an underlying criminal purpose. Of course, where the attorney-at-law is a willing participant in such schemes, the presence of intermediaries and more complex transactional chains will make it more likely that the attorney-at-law will be able to obscure that effort from others.

Some of the core services and practice areas featured in the Cayman Islands, such as the formation of vehicles and arrangements, can be mitigated by the involvement of other regulated entities, such as licensed registered office providers and licensed trustees. However, it is important to note that domestic vehicles with local operations typically do not use licensed registered office providers and licensed trustees. While the majority of the jurisdiction's client base may be global and institutional in nature, there is a combination of regulated entities and unregulated entities. This underscores the need for attorneys-at-law to apply a risk-based approach under the Regulations to ensure that clients which are deemed to be low risk clients are subjected to simplified due diligence, medium risk clients are subject to standard due diligence, and high-risk clients are subject to enhanced due diligence.

We keep in mind here the ‘Key Findings of the Legal Persons and Arrangements Risk Assessment’ (published May 2020). The risk assessment takes a cautious approach and concludes that there is a high risk of Cayman Islands legal entities and arrangements being misused for ML. Inherent risk is the risk that arises from the nature of the business conducted by entities, prior to the application of any mitigating factors.

We note that from 2015 to 2018, the Financial Reporting Authority received suspicious activity reports involving over 1000 Cayman Islands companies and arrangements, the majority of which related to exempt companies (which by definition are dealing with offshore business). The majority of cases investigated by

the Financial Crimes Unit involved legal persons and almost 40% of the requests for legal assistance received from foreign jurisdictions involve Cayman Islands legal persons, mainly exempted companies. Exempted companies represent almost 70% of the legal persons and partnerships formed in the Cayman Islands. We maintain a cautious approach.

As for firms of attorneys' interaction with those persons registered under SIBL¹ we note at paragraph 22 of the relevant risk assessment that 57% of SIBL-EPs, as they were called, undertake 'securities manager activities'. There is potentially large harm here as the total assets under management are very significant, \$1.266 trillion as at September 2019 (paragraph 21). We understand that some Cayman attorneys will advise SIBL registered persons, as they are now called, on appropriate legal structures.

In terms of terrorist finance risks, we note the overall medium risk rating². We will be particularly vigilant in respect of attorneys who advise on crowd-funding structures (should we encounter any) and those whom we know have advisory practices which include initial coin offerings (ICOs).

An assessment by CARA of each Supervised Firm risk profile has been carried out based on information provided on the 2019 registration form. Individual firm risk profiles are assessed on a regular basis and as new information becomes available. At this stage we do not believe there is a causal link between the size of the firm and the level of risk. There is potential high impact at a global firm in that such a firm's client may be responsible for very significant assets under management. Further there may be pressure amongst fee earners to compete on hours billed and client satisfaction, rather than insist on the highest standards of due diligence or spend time in ongoing monitoring. Set against this, in mitigation, larger firms have dedicated compliance departments and expert regulatory attorneys.

At the other end of the spectrum, sole practitioners may also be regulatory specialists or may struggle to keep abreast of regulatory change. We have early concerns about a small number of individual practitioners who hold themselves out as a 'one-stop shop' for most or all of: entity incorporation; registered office; provision of directors; audit and accountancy; pension & investment advice; liquidation. Such an individual would be an obvious target for bad actors. Set against this, in mitigation, smaller firms know their clients well and are personally invested in their own business and its continued operation.

Our supervisory work began earlier this year and we will continue to explore these and other themes through onsite inspections and desk-based reviews.

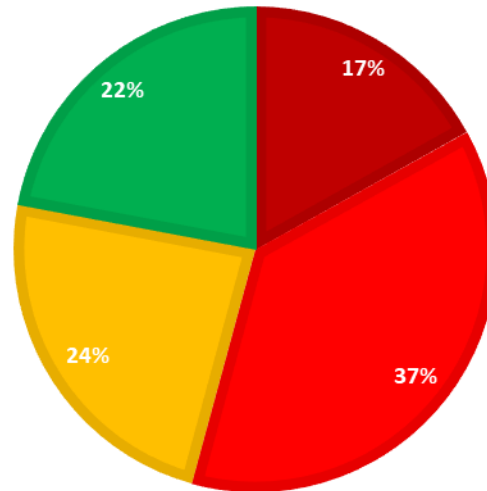
The below chart summarizes the initial ratings assigned to the Supervised Firms.

¹ See <https://amlu.gov.ky/wp-content/uploads/2020/03/SIBL-EPs-Risk-Assessment-2019.pdf>

² https://www.cima.ky/upimages/commonfiles/National-TF-Risk-Assessment-February-2020_1584119647.pdf

RISK RATINGS OF SUPERVISED FIRMS

■ Very High ■ High ■ Medium ■ Low



Firms categorised as being of higher risk should not be regarded as a negative. It is acknowledged all firms have different risk appetites. It is expected that firms with higher risk exposures will have appropriate policies, processes, systems and controls in place to identify, manage and mitigate those risks.

IX. Risk Factors

A. Services Risk

The ML/TF/PF risk for Supervised Firms is largely dependent upon the services, or combination of services they offer. CARA has identified the following services as being the most vulnerable to potential misuse:

Service Client Accounts

Why An attorney-at-law's client account can be misused to make criminal funds appear to have a legitimate source. Client accounts can also be misused to channel funds for terrorist financing or proliferation financing purposes.

Key Points Attorneys-at-law must be alert when money is transferred between parties without the attorney-at-law conducting any legal work, especially when an expected transaction is surprisingly abandoned or where the settlement for a supposedly contentious matter happens too quickly and easily. Likewise, money flowing through an account for contrived "back-to-back" transactions can facilitate a criminal's intent of obscuring the source of funds through needless layering.

Attorneys-at-law must never allow their client account to be used as a banking facility, or to pass funds through it without a legitimate underlying legal transaction. Supervised Firms should be aware of any attempt to pay funds into a client account without a genuine reason, or to get a refund of funds from a client account (particularly to a different account from which the original funds were paid). It is a

good idea not to make the details of a client account visible (for example through including them in engagement letters) and to provide them only upon request once client due diligence has been completed

Extra care must be taken by Supervised Firms which carry out complex/cross-border legal services.

As at 7 October 2020, 76% of Supervised Firms offered client accounts.

Service **Property/Conveyancing**

Why An attorney-at-law's services in a property or conveyancing transaction are attractive to bad actors often seeking to launder large amounts of money in a single transaction. Property transactions are also attractive to criminals on the basis that the value of properties can appreciate and can generate rental income.

Key Points Properties owned by nominee companies or multiple owners may be used as money laundering vehicles to disguise the true owner and/or confuse the audit trail. Further, the attorneys-at-law will sometimes willingly participate in money laundering by facilitating property transfers utilising funds or assets that they know are tainted.

While transfers of property do not need to be legally undertaken by attorneys-at-law to be valid in the Cayman Islands, their involvement is a matter of custom and practice. Indeed, attorneys in the jurisdiction will customarily hold and transfer the funds for the purchase of real estate and will be deeply involved in the details of these transactions such that they would not occur without their services. Consequently, attorneys-at-law provide both a critical gate-keeping role to diligence whether the parties conducting the transaction are doing so for concerning reasons, as well as ensuring that their accounts are not being used as a direct conduit of proceeds of crime. Attorneys-at-law will need to identify the property-owning vehicle's beneficial owners and be alert to sudden or unexplained changes in ownership.

As at 7 October 2020, 81% of Supervised Firms offered services relating to property or conveyancing.

Service **Shipping**

Why Attorneys-at-law may be utilised to establish Cayman Islands vehicles that are used for the acquisition of assets, such as ships and yachts, that may lack any physical presence or other connection to the Cayman Islands. Attorneys-at-law may also be used for the purpose of registering a vessel with the Cayman Islands Maritime

Authority. Cayman has a strong maritime tradition; its registry is among the most popular fifteen flags in the world³.

Key Points

Shipping activities relate to known ML/TF/PF risks such as transport of illicit goods/proceeds (e.g. goods manufactured for weapons of mass destruction), trade-based frauds and/or insurance frauds.

Attorneys-at-law must take steps to understand the nature of their clients' transactions and monitor whether and when such transactions align with the expected business and investment activities of the clients.

29% of Supervised Firms reported involvement with aircraft or shipping finance.

Service

Creation of Legal Persons and Arrangements

Why

Corporate entities and legal arrangements can be used as vehicles to layer and transfer proceeds of crime through the financial system, such as when a trustee abuses a trust vehicle to distribute funds or when the directors of incorporated entities are involved in criminal activities and will seek to use such entities in furtherance of that activity. Cayman is known as the hedge fund capital of the world, around 85%⁴ are domiciled here. Attorneys are frequently asked to advise on appropriate structures and vehicles.

Key Points

To the extent that attorneys-at-law play the key role in the formation of these entities, and therefore act as the primary gatekeeper to the introduction of new market participants, there is the potential that attorneys will inadvertently (or knowingly) allow criminals to directly transfer illegal proceeds through the vehicle or empower them to do so in the future via the ongoing control of the entity or arrangement. The involvement of other parties (including regulated entities) should be considered by attorneys when determining the scope of their responsibilities (and obligations) in relation to corporate formation.

75% of Supervised Firms reported that they conducted legal work in relation to the formation of trusts and legal persons.

Service

Management of Companies and Trusts Services

Why

Similar to the creation of legal entities and arrangements, attorneys-at-law can be sought out to act as trustee or directors of legal arrangements and entities so that they can conduct a series of improper transactions on behalf of criminal clients (whether intentionally or unwittingly).

Key Points

The potential misuse of these vehicles is extensive, since significant power is given to directors and trustees under both specific contractual provisions and wider legal

³ <https://www.caymanenterprisecity.com/cayman-maritime-park/registry>

⁴ <https://cayman.finance/2016/03/the-cayman-islands-a-guide-for-hedge-fund-managers/>

principles. Correspondingly, attorneys-at-law should be especially mindful when they are acting in such capacities since they are in a direct position to effectuate a potentially large number of transactions as a result of these roles.

Since company management and trustee services are popular services provided from the jurisdiction and given the frequent organisational affiliation between attorneys and these service providers, many Cayman Islands attorneys-at-law will find themselves involved in these services and will be an attractive target for criminals as a result.

Service **Managing Client Affairs and Making Introductions**

Why Attorneys are sometimes empowered to act on behalf of their clients for specific transactions or their wider business affairs. In those circumstances, attorneys could find themselves directly participating in a wide range of transactions where they are moving funds and assets through the financial system, and therefore potentially facilitating ML/TF/PF.

Clients who want to avoid directly engaging with financial institutions, such as banks, because of those institutions' own AML obligations, will sometimes seek attorneys-at-law to introduce them with the belief that banks will treat the client differently, and may conduct less due diligence, if they have a professional reference and a lawyer actively engaged with opening their bank account.

Key Points Given the global attractiveness of the Cayman Islands' financial services sector more broadly, and the sometimes legitimate advantages of involving local attorneys to help international clients establish local relationships, attorneys will be vulnerable to those who wish to obscure their problematic background or transactional intent from the due diligence conducted by other regulated entities (and may find it difficult to distinguish from proper and improper requests if they do not conduct appropriate due diligence).

B. Geographical Risk

Supervised Firms should consider as a part of their risk assessment: (a) the jurisdiction in which services will be delivered; (b) the jurisdiction of the client (including beneficial owners); and (c) the jurisdiction of the source of funds and destination of funds.

Consideration should be given to the following geographical risk areas:

Country **Countries That Do Not Have Equivalent AML/CFT/CPF Standards to the Cayman Islands**

Why Countries identified by credible sources as having AML/CFT/CPF deficiencies that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan pose a significant risk to international efforts to combat ML/TF/PF.

Key Points Regulation 5 of the Regulations requires Supervised Firms to have policies and procedures in place, to ensure observance of the list of countries, published by any competent authority, which are non-compliant, or do not sufficiently comply with the recommendations of the FATF.

Supervised Firms must use credible sources to identify countries:

- having significant levels of money laundering, organised crime, or other criminal activity, including source or transit countries for illegal drugs, human trafficking and smuggling and illegal gambling
- known for providing funding or support for terrorist activities or that have designated terrorist organisations operating within them;
- having weak governance, law enforcement, and regulatory regimes;
- uncooperative in providing beneficial ownership information to competent authorities.

The FATF currently maintains a list of high-risk jurisdictions which can be accessed at the following link: <http://www.fatf-gafi.org/countries/#high-risk>

The FATF also published mutual evaluation reports which can be accessed by country at the following link: <http://www.fatf-gafi.org/countries/>

Country **Countries with Organisations Subject to Sanctions**

Why Countries identified with organisations subject to sanctions, embargoes or similar measures issued by the United Nations, the European Union and the United Kingdom (as extended to the Cayman Islands by Orders-In-Council) pose significant risk in relation to potential financial sanctions breaches and associated offences.

Key Points Regulation 5 of the Regulations requires Supervised Firms to have policies and procedures in place, to identify risk in relation to persons, countries and activities which shall include checks against all applicable sanctions lists.

More information on applicable sanctions including industry guidance notes on targeted financial sanctions can be assessed at the following link: <http://fra.gov.ky/contents/page/1>

Country **Countries with Significant Levels of Corruption**

Why Countries identified by credit sources as having significant sources of corruption pose a significant risk to international efforts to combat corruption or other criminal activities.

Key Points Regulation 27 of the Regulations requires Supervised Firms to apply enhanced due diligence measures where a client or an applicant for business is from a foreign country that has been identified by credible sources as having serious deficiencies in its anti-money laundering or counter terrorist financing regime or a prevalence of corruption.

Transparency International produces a list of jurisdictions based in an annual corruption index, which can be accessed at the following link: <https://www.transparency.org/country>

C. Transaction Risk

Attorneys-at-law need to be aware of transactions which are unusual or do not make commercial sense.

Consideration should be given to the following transaction risk areas:

Transaction **Cash/Virtual Currency Transactions**

Why Cash transactions/virtual currency transactions can facilitate anonymity and enables ML/TF/PF because it has not passed through the traditional banking system and the associated checks.

Key Points Attorneys-at-law should have a policy on what amount of cash can be accepted and the circumstances in which cash will be accepted. In the circumstances, where a client requests to make a cash payment, such transactions may be considered higher risk.

As at 7 October 2020, 46% of Supervised Firms accepted cash transactions.

Transaction **Unfamiliar Transactions**

Why Bad actors may seek to take advantage of attorneys-at-law by engaging attorneys to lead specific transactions or provide legal services in practice areas that are not typically offered or practice areas that are not well known to the firm or the attorney. Attorneys-at-law that are engaged in unfamiliar transactions may not identify ML/TF/PF schemes.

Supervised Firms typically offer services relating to specialties or practice areas that are well known to the attorneys-at-law within the practice. When opening a client

file or commencing an engagement attorneys-at-law should make appropriate enquiries to understand the nature of the clients' transactions.

Key Points Attorneys-at-law should have policies and procedures in place to incorporate consideration of the relevant risks when deciding whether to establish a new practice area or take on a matter that is outside the services typically offered.

Transaction **Complex and/or Unusual Transactions**

Why Transactions may be higher risk if utilising complex mechanisms or obscure the source of funds or they do not fit within the client profile or pattern. These factors may indicate that such transactions are linked to ML/TF/PF.

Key Points Supervised Firms should gather data at the initial stage of the client relationship that would indicate the general nature of the client and the nature of transactions that will be entered into in the context of the client-attorney relationship. Supervised Firms should ensure that they fully understand the nature and purpose of each transaction that they are being asked to undertake. When forming and managing companies and trusts, such as when acting as trustee, attorneys should be mindful of the wider group structure or legal arrangement when determining whether a proposed vehicle or restructuring makes economic sense in that context.

Transaction **Transactions that Facilitate Anonymity**

Why Criminals seek to distance themselves from their crimes or activities and they seek to take advantage of transactions which can hide their information as the true beneficial owners of assets through various mechanisms including use of corporate vehicles.

Key Points Ensure that clients are aware of Cayman Islands regimes implemented to promote transparency and international cooperation such as the Regulations, the Cayman Islands Beneficial Ownership Regime and the Automatic Exchange of Information Regime. Supervised Firms should be alert to clients seeking services or requesting transactions to preserve anonymity and unexplained structuring efforts to obscure ownership.

Transaction **Payments to/from Third Parties**

Why Criminals seek to distance themselves from their crimes or activities by arranging for associates or third parties to make or receive payments.

Key Points Attorneys should have policies, procedures and controls to monitor payments and other financial transactions that flow through the firm's accounts (including client accounts) to ensure that all transfers are connected to known and expected parties. There are circumstances where transfers connected to third parties are appropriate, although firms must confirm that there is a verifiably legitimate relationship between those parties and the relevant clients and that the purpose of the transfer is understandable.

It was reported that 49% of Supervised Firms receive and pay funds on behalf of others in their course of business.

D. Delivery Channel Risk

The methods by which firms of attorneys-at-law deliver their services can impact the risk of such services being misused for ML/TF/PF purposes. Non-face-to-face business increases the risk of identity fraud and may facilitate anonymity.

Delivery Channel	Non-Face-to-Face Business
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Why	If you have never met a client or controller/beneficial owner of a client, there is a risk that the client or the controller/beneficial owner of a client is not who he, she or it purports to be.
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Key Points	Certain legal services in the Cayman Islands are entirely based around the concept of non-face-to-face business. Most notably, Supervised Firms with an international practice will commonly deal with overseas clients. In certain contexts, it makes sense for such business to be conducted as non-face-to-face business and for business communications to be managed by email and telephone.
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In addition to the use of robust compliance policies and procedures, firms of attorneys-at-law should consider the use of technology to bridge these delivery channel gaps such as electronic signatures, video calls and other means of third-party verification. Clients clearly trying to avoid meeting in person should be carefully reviewed and considered.

34% of Supervised Firms reported that, in some instances, the origin of their client relationships was established through non-face-to-face business.

Delivery Channel	Intermediary Business/Introduced Business
Why	Intermediaries may be (knowingly or unknowingly) facilitating ML/TF/PF activities. Professional money launderers may conceal their activities under the guise of the provision of legitimate services such as accounting services, financial or legal services, banking services, money-value transfer services or entity formation services.
Key Points	<p>Supervised Firms often receive client introductions from professional and non-professional persons and should take into account the professional nature of the source of work when considering the risk.</p> <p>It is important to consider the reputation and professional nature of the intermediary carefully as not all professionals are regulated for AML/CFT/CPF services. A review of the jurisdiction's mutual evaluation report can identify such gaps in regulation. Such reports can be accessed by country at the following link: http://www.fatf-gafi.org/countries/.</p> <p>While it is useful to identify the intermediary introducing the business to the firm of attorneys-at-law, it is essential that firms identify the client for whom the business relationship is established.</p> <p>66% of Supervised Firms reported some use of intermediaries/eligible introducers.</p>

E. Client Risk

Based on their own criteria, Supervised Firms should seek to determine whether a client poses a higher risk and the potential impact of any mitigating factors on that assessment. Application of risk variables may mitigate or exacerbate the risk assessment. Categories of clients whose activities may indicate a higher risk include:

Client Risk	Politically Exposed Person(s) ("PEPs")
Why	PEPs and persons closely associated with or related to PEPs, are considered as higher risk clients because, in some cases, they may have access to public funds or the ability to influence public policy and may be susceptible to corruption.
Key Points	Regulation 30 of the Regulations requires Supervised Firms to put in place risk management systems to determine whether a person or beneficial owner with whom that person has a business relationship is a PEP, family member or close associate and to undertake enhanced due diligence on such persons.

24% of Supervised Firms reported having foreign PEPs as clients and/or beneficial owners of clients. In addition, 25% of Supervised Firms reported having domestic PEPs as clients and/or beneficial owners of clients.

Client Risk	Clients that Seek Anonymity
Why	Clients primarily seeking to hide their identities or the identities of third parties may be engaged in ML/TF/PF.
Key Points	There are circumstances where confidentiality or privacy is required for legitimate business purposes or where up-to-date identification documents cannot be produced (e.g. elderly people or asylum seekers). Supervised Firms must seek to obtain a reasonable explanation for clients that are unable to produce standard identification documentation. Supervised Firms may consider persons who produce non-standard documentation to be higher risk.

Client Risk	Client Operations
Why	Details of each client's operations should be carefully considered as certain activities pose a higher risk of being engaged in ML/TF/PF.
Key Points	<p>Taking into account the results of the practice-wide risk assessment to be conducted by each Supervised Firm, consideration should be given as to which activities should be considered higher risk for ML/TF/PF purposes.</p> <p>For example, clients that operate cash (and/or cash equivalent) intensive businesses may be considered higher risk. However, where such clients are themselves subject to and regulated for a full range of AML/CFT/CPF requirements consistent with the FATF Recommendations, this will aid to mitigate the risks.</p>