

Cayman Islands National Risk Assessment, 2021 Sectoral Outreach: Lawyers



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In this session

- Background & Context
- Methodology
- Lawyers - Summary findings
- Next steps – What actions will firms/ sole practitioners be expected to take?
- Q&As



Polling Question 1


Q. What was the ML/TF vulnerability level applied to Lawyers in the last NRA, 2015?

- a. High
- b. Medium High
- c. Medium
- d. Medium Low
- e. Low

Polling Question 2

Q. Which one of the following DNFBPs was rated as having the highest degree of ML/TF vulnerability in the NRA, 2015?

- a. Real Estate
- b. Accountants
- c. Lawyers
- d. Dealers in Precious Metal and Stones
- e. TCSPs

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- “Lawyers and Trust and Corporate Service Providers presented the greatest degree of vulnerability among DNFBPs due to the complexity of their international financial transactions, viewed against the fact that lawyers of the affiliated law firm are the provider of business and legal advisers on these financial structures and transactions managed by the TCSPs.” (NRA, 2015)

Background & Context

NRA 2015	NRA 2021
World Bank Tool	Financial Transparency Advisors
8 Working Groups	15 Working Groups
Conducted Oct 2014 to Oct 2015	Conducted Jan to Sept 2021
5 level ratings (L,ML,M,MH,H) based on numerical scales	4 level ratings (L,ML,MH,H) based on 5 risk factors
ML & TF	ML, TF, & PF
Summary results published	Full report published

Background & Context

Improvements since the MER (March 2019)

- Updated the NRA and strengthened analysis:
 - (1) Subsectors subject to limited supervision (e.g., SIBL EPs) or no supervision;
 - (2) Legal persons or arrangements that can be created in the Cayman Islands;
 - (3) Cayman as an international financial centre;
 - (4) Terrorist Financing.
- Greater resources allocated to CIMA, FRA and RCIPS.
- New supervisory authority for lawyers.
- Registration of real estate agents, developers, and DPMS by DCI.
- Registration of private funds.
- Supervision of VAs and VASPs.
- Pursuit of a greater variety of ML cases, including standalone and third party.
- Pursuit of criminal assets abroad.
- Legislative amendments –Compliant or Largely Compliant with all 40 Recommendations.

Methodology – The Legal Sector Working Group



Step 1

The Legal Sector Working Group (“LSWG”) was comprised of Chair & Vice Chair, 4 members from the private sector (legal, CSP & real estate), 1 from law enforcement, 2 from other AML supervisors



Step 2

The LSWG’s task was to identify, assess, and evaluate the ML, TF and PF risks in the legal sector of the Cayman Islands. The LSWG then determined and identified relevant various data sources and information needed to be collated.



Step 3

Information from the relevant data sources was analysed. Subcategories were determined and decisions were made as to the ratings to be assigned to each risk factor and the sector overall.

Methodology – Data Sources

CARA AML Return data

CARA Registration data

Information collected by
CARA through
supervisory engagement

Roundtable session with
CILPACS

Information from the FRA

Information from the
ODPP

Information from the
Land Registry

Legal Sector Risk
Assessment (Oct 2021)

Questionnaire to the
private sector on Trusts

Information from the
Shipping Registry

Information from the
CAACI

Foreign Cooperation
Request Statistics from
foreign supervisors with
linkage to ML or
governance involving a
Cayman Islands lawyer

Methodology – Subcategories

International Firms

Law firms physically located in the Cayman Islands and that also has an established office or a presence outside of the Cayman Islands.

1/3

Vast majority are companies, LLPs or partnerships

Very few sole practitioners

Domestic Firms

Law firms which are purely domestic in nature.

2/3s

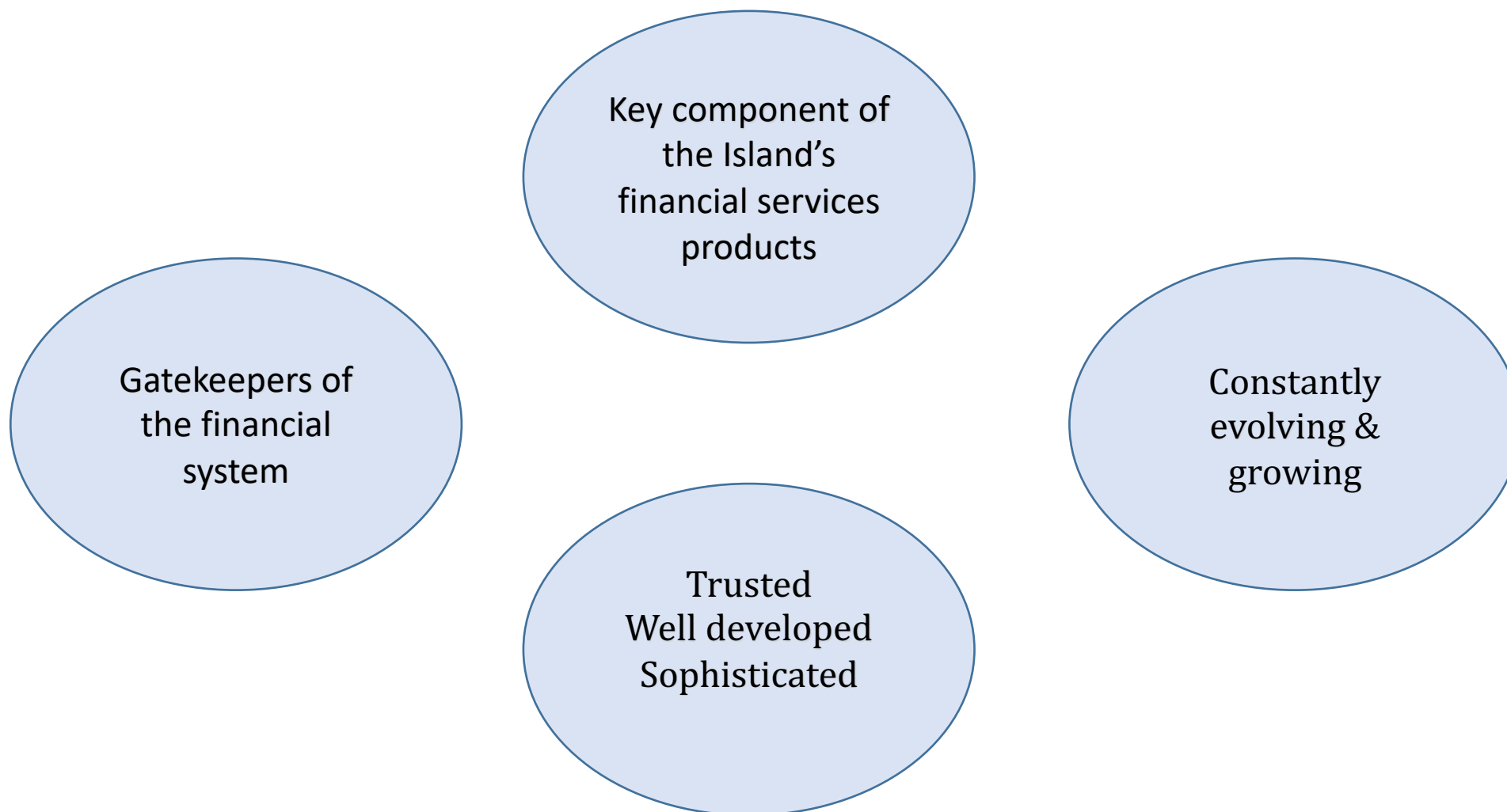
Nearly half are sole practitioners

Polling Question 3

Q. What was the ML/TF/PF overall risk rating applied to international and domestic law firms in the NRA, 2022?

- a. High
- b. Medium High
- c. Medium Low
- d. Low

The legal sector in the Cayman Islands



Summary Findings

1. Nature, scale, and complexity - Medium-high

Given that all types of 'relevant financial business' can be provided by both international and domestic law firms, to both domestic or overseas clients; it is the extent of the volume of activity which differs between supervised firms, which in turn increases the likelihood and impact of risk.

Medium High - International firms have a high degree of vulnerability due to the significant volume of complex cross-border activities and their clients may be responsible for very significant assets under management.

Medium Low - Domestic firms' client matters are considerably lower in volume; however, these firms are also often instructed by international clients and are more likely to be involved in higher risk services such as conveyancing.

Summary Findings (cont'd)

2. Client Base - Medium-high

The risk drivers are the predominantly international instructing client base, the presence of UHNWI/HNWI, PEPs, foreign UBOs from high-risk jurisdictions, and clients operating in higher risk business areas. While the overall number of clients in domestic firms is significantly far less than international firms, the nature of the client base is broadly similar.

Polling Question 4

What was the most common RFB activity carried out by law firms in 2020?

- (a) legal services relating to the sale, purchase or mortgage of land or interests in land on behalf of clients
- (b) Legal services relating to the management of client money, securities or other assets
- (c) Legal services relating to the organisation of contributions for the creation, operation or management of companies
- (d) Legal services relating to the creation, operation or management of legal persons or arrangements, and buying and selling of business entities.
- (e) Legal services relating to the management of bank, savings or securities accounts

Summary Findings (cont'd)

3. Legal Services - Medium-high

Lawyers can add credibility to a transaction and can assist (wittingly or unwittingly) with the layering of criminal proceeds into legitimate structures and vehicles.

The following legal services are identified as having a **high inherent ML risk**:

- Advising on the creation and formation of legal persons and arrangements
- Conveyancing
- Operating a trust account
- Management of companies and trust services
- Formation of Trusts
- Aviation and shipping
- Special purpose vehicles and structured finance products

Law firms also have close affiliations with a significant minority of the TCSP sector, which presents higher risk.

Summary Findings (cont'd)

4. **Delivery Channels - Medium-Low**

The provision of legal services in the Cayman Islands is mainly based around the concept of non-face-to-face business.

In international firms in particular, a significant majority of business is introduced by onshore firms of lawyers.

Both international and domestic firms receive a large percentage of client introductions from international and local professional intermediaries, although domestic firms also reported meeting a significant percentage of their clients in person.

There are still risks however, that introduced business brings with it.

ML Inherent Risks Overview & Materiality

The below table summarizes the conclusions of the NRA 2021 with regards to the **inherent risk levels faced by each sector against the background of each sector's materiality relative to others.**

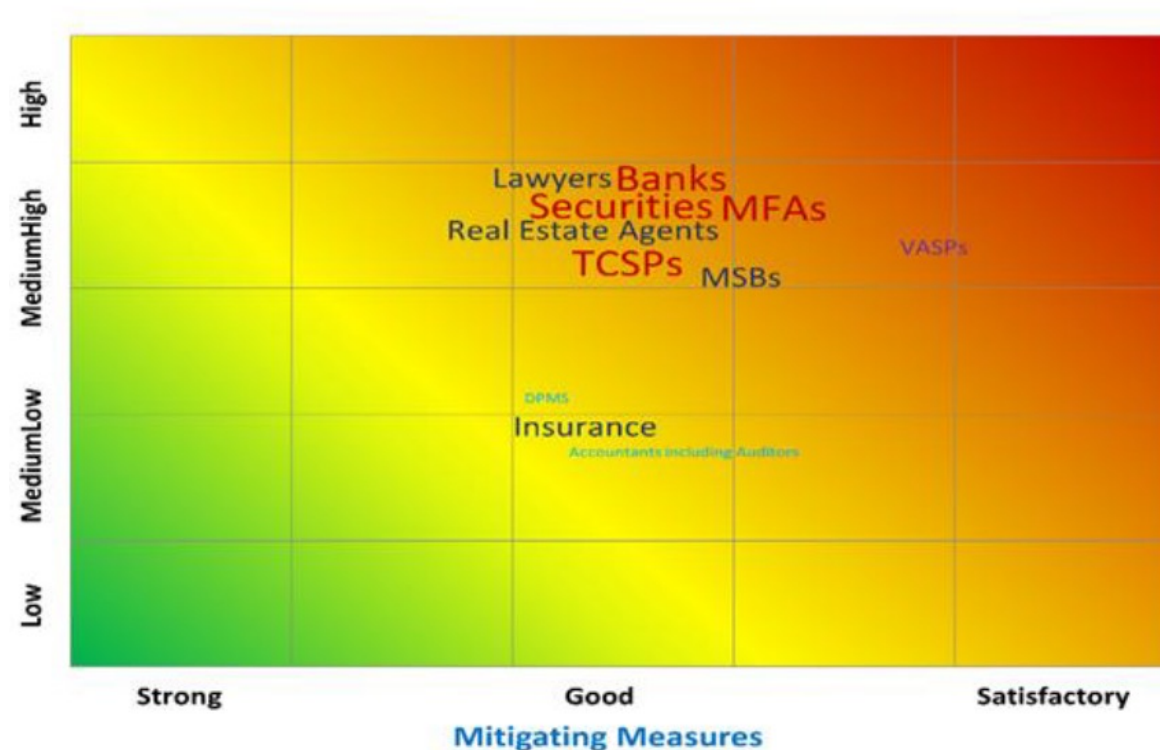
The risk ratings for each sector are broken down by nature/size/complexity, customer, product/service/transaction, and delivery channel risk factors.

Geographic risk factors are considered as a dimension of the named risk categories, rather than treated as a separate and additional risk category.

	Mutual Fund Administrators	Securities	TCSPs	Banks	VASPS	Insurance	Lawyers	Real Estate Agents	MSB	Accountants & Auditors	Financial Leasing	DPMS	High-Value Dealers
OVERALL INHERENT RISK	MH	MH	MH	MH	MH	ML	MH	MH	MH	ML	ML	ML	ML

ML Inherent Risks Overview & Materiality (cont'd)

- Taking into account **inherent risk ratings and the materiality of the sector**, the Cayman Islands has concluded that the most significant sectors for AML / CFT / CPF are securities, mutual fund administrators, TCSPs and banks.
- Lawyers and Real Estate Agents fall within the next category, followed by insurance, MSBs and VASPs.
- In the final category, are accountants including auditors, financial leasing, DPMS, high-value dealers and money lenders.



Next Steps - What action should you take to mitigate the risks identified in the NRA 2021?

- Read the NRA 2021
- The NRA *“is a blueprint for FIs, DNFBPs and VASPs to better understand their institutional risks and to direct internal resources in a risk-based manner”* (AMLU, 2022)
- Ensure you understand the threats from ML, TF and PF and your firm’s inherent vulnerabilities.
- Review and update your firm’s Business Risk Assessment.
- Review, and if necessary, update your client risk assessments.
- Ensure your controls address your firm’s risks.
- Ensure your controls are effective.

Next Steps (cont'd)



Next Steps (cont'd)

Due to be published shortly –

AML/CFT/CPF Strategy 2022-2025

AML/CFT/ CPF Action Plan 2022-2023

- CARA Actions 2022 :
 - AML Return 2022
 - BRA Thematic Review
 - Updated Legal Sector Risk Assessment
 - Outreach and Guidance

Q&A

Thank you for attending this outreach.

If you would like further information, please contact info@cara.ky or telephone (345) 749 2272.

