



Cayman Islands
Institute of
Professional
Accountants

Report on Supervision Activities of CIIPA pursuant to the AML Regulations, 2021

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Introduction

As the Anti-Money Laundering (“AML”) Supervisory Authority for accounting firms, CIIPA continued its supervision in 2021. This included a fourth round of on-site inspections and continuing off-site monitoring. This document outlines key themes and findings arising from supervision.

This Report is a summary of the Report presented to the Anti Money Laundering Steering Group in accordance with Regulation 55D of the AML Regulations.

Five firms were inspected in 2021, all of which were accounting firms engaged in relevant financial business as liquidators of entities. Four of the five inspections were conducted remotely but all entailed an in person opening meeting at the firm’s premises.

There were 16 findings across the inspections which considered as an average per firm (3.2) is lower than the average for 2020 (5.21) and for the 2019 inspections (3.875). This indicates a trend towards better compliance by firms and the effectiveness of supervision and outreach. The findings across the Firms can be grouped as illustrated in Figure 1.

Figure 1



An explanation and context for the findings is presented below:

Client Risk Assessment

The most common finding was weak or non-existent client risk assessments (“CRA”). This was also the most common finding in 2020 jointly with Screening and Monitoring.

CRA’s are weak if performed without reference to the factors prescribed in the Anti Money Laundering Regulations or meaningful reference to the facts at hand.

The CRA is a foundational step in order to determine the Client Due Diligence (“CDD”) and monitoring required.

It is acknowledged that the findings have occurred more readily in the context of liquidations where the need to conduct a risk assessment arises both at the time an appointment is taken and, often more importantly, when a distribution is made.



Screening

Screening requirements also generated three findings and it was also a common finding in 2019 and 2020. As stated in the 2020 Themes report:

Screening entails use of either an inhouse or third-party automated system or a process to conduct searches against sanctions lists at various frequencies or following prescribed triggers (which may be adequate where there are low volumes of transactions or clients). The objective is to identify whether a client or assets held are subject to targeted financial sanctions. But screening may also be conducted to identify PEPs and other risk indicators.

In the three 2021 findings, the one of greatest concern was a deficient policy on screening that excluded investors below 10% interest and the controllers and Ultimate Beneficial Owners (“UBOs”). The two others related to failure to document the procedure for screening including how alerts would be addressed; and failure to document the decisions made regarding alerts.



Policies & Procedures

It is necessary to keep policies and procedures under review as they will require updating in the event of:



Change in legislation or requirements



Change in the overall Money Laundering (“ML”), Terrorist Financing (“TF”) or Proliferation Financing (“PF”) risk in the firm, including services and the profile of the firm



Failures of compliance controls, including their adequacy to address risk

Some firms have specific processes that may also only be applicable to specific engagements e.g. where there are distributions to numerous parties. In that case it is important to assess the risk of each individual receiving a distribution but the way in which that is documented may differ from individual distributions. In that case the policies and procedures need to address that practice to ensure consistency and to manage risk.

Another feature of liquidations firms is that if they have both official and voluntary appointments and its policy may differ in respect to those, which needs to be clearly documented in the policies and procedures.

In summary, all practices to take or not take action in certain cases, needs to be documented. This includes identifying who is responsible for various actions especially where responsibility spans the first and second lines of defence or where there are dedicated teams e.g. screening.

Country Risk Assessment

Two findings resulted in requirements to review and update Country Risk Assessments. As noted in the AML Themes Report for 2020, the Country Risk Assessment is essential for both the Business Risk Assessment (“BRA”) and Client Risk Assessments (“CRA”).

One firm had referred to credible sources, however, due to the bands being set at a low level, the result was 144 low risk countries.

Another firm had not conducted a country risk assessment with a documented methodology, nor provided criteria for ad hoc determinations in each case.

It had referred in its Procedures simply to countries:

- “with a higher risk of ML or that is subject to sanctions”,
- “which is considered to have an equivalent AML regime”, or
- “with equivalent legislation”.

With respect to reliance on Eligible Introducers, the team member had to determine if a country has:

- “a low degree of risk of ML/TF” with no guidance or criteria for making that determination.

A lack of policy or criteria or a list of high or low risk countries will potentially result in inconsistency, flawed compliance data and an increase in the risk that controls are not commensurate with the risk.

Requirements were imposed to revise or devise a country risk methodology and review all controls and reference to country risk to ensure effectiveness.



Business Risk Assessment

One firm had not used enough data from within the firm nor information available from assessments published by CIIPA, other supervisors and the Cayman Islands Government regarding inherent risks in its business. Further it had not considered ML, TF and PF risks specifically and

separately, not documented those risks in relation to the risk categories Client, Service, Geography and Delivery Channel, and the BRA was not dated nor scheduled for review.



Client Due Diligence Policy



One firm had a policy that only required CDD for transactions more than \$15,000 (whereas the threshold was lowered to \$10,000 in 2019), only required CDD for transactions where the investors share of the total investment value is 10% or greater, did not require the verification of ownership of corporate entities by means of obtaining a Register of Members (or an equivalent independent and reliable source) nor the memorandum and articles of association, and did not require an Eligible Introducer

to confirm that it is supervised or monitored by a Supervisory Authority or an overseas regulatory authority (as defined in Regulation 2 of Anti Money Laundering Regulations as amended).

A second firm had no CDD policy for contentious appointments nor distributions which resulted in a high number of exceptions to its CDD requirements.

Records



One firm could not provide access to records which were held in another jurisdiction on a separate system.

Simplified Due Diligence (“SDD”) Reliance



One firm had failed to document its policy on reliance as a form of Simplified Due Diligence.

Country Risk Thematic Review

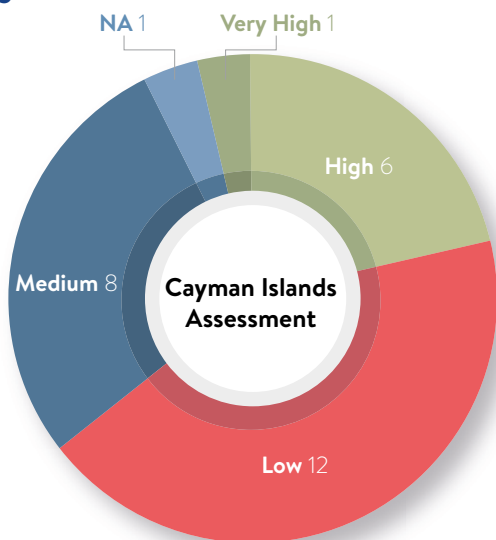
In addition to the 2021 inspections, CIIPA conducted off site monitoring of all firms in 2021 regarding their country risk assessments. The analysis of the firms' country risk assessments was used:

- to make recommendations to firms to enhance their country risk assessment methodology
- in analysis of the exposure of the sector to country risk specifically
- to enable benchmarking of CIIPA firms' assessments
- in the review of CIIPA's risk assessment of the firms (that inform its Risk Based supervision)

Specific observations

1. There was a varied set of results regarding the assessment of the Cayman Islands. See Figure 2.

Figure 2



2. It was rare to see the inclusion of a credible source regarding the risk in countries relating to terrorism, proliferation and the financing of those.
3. Some firms had a methodology and a resulting list of countries it had assessed as low risk but not for high risk, whereas a high-risk list is considered essential so decisions can be taken about onboarding and conducting enhanced due diligence and monitoring. Low risk on the other hand is only needed if the firm seeks to rate its clients or engagements as low risk to apply simplified due diligence.
4. Some firms overly referred to their client risk assessment methodology in their country risk assessment, however, country risk is just one component of the client risk assessment. It is important to separately consider country risk, client type, services offered and delivery channels for the client risk assessment. Whilst not the focus of the Thematic review it was noted that some client risk assessments when shared, were only considering country risk in relation to location of incorporation and domicile of the entity client and not e.g. its owners and controllers, source of funds, destination of transactions etc.
5. Five firms used the repealed *List of Equivalent Jurisdictions* as a basis to justify a low-risk country list whereas that list was not credible at the time of repeal, hence its repeal and more

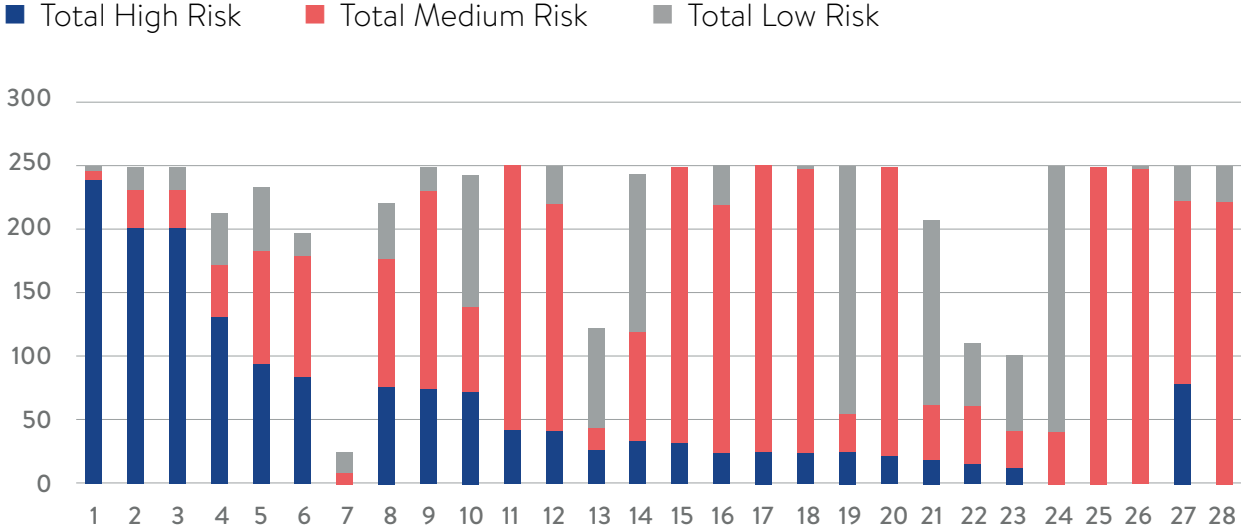
importantly was not a list of low risk countries rather countries considered equivalent to Cayman.

- 6. Some firms permitted adjustments to the assessments produced by an automated methodology and close attention was paid to where this was used to lower the auto assessments. In the event that many adjustments are made it would suggest that the methodology requires amendment.
- 7. CIIPA applied an assumption that the total number of countries is 250 in order to present the results comparison in Figure 3. Eight firms applied a default rating of medium, but this was not always evident in policies and firms were asked to confirm as part of the review.

- 8. One firm relied on membership of the Financial Action Task Force (“FATF”) or FATF Regional Body (218) that had not had an unfavourable evaluation as low risk. But this did not take account of the date of the last evaluation and the fact that some countries are not able to accommodate an evaluation. In this case the risk is higher.²

The result of the varied approaches by Firms to the methodology is a wide ranging set of results in the country risk assessments as shown in Figure 3.

Figure 3 - 28 Firm’s Country Risk Assessments



X axis showing the 28 firms, Y axis the number of countries assessed as low, medium or high risk.

² Firms were cautioned against this approach in paragraph 8 of the Helpsheet.

Outreach Activities

CIIPA's vision includes facilitating trust and confidence in the Cayman Islands and the accountancy industry globally by providing knowledge, resources, advocacy and regulation.

To that end, CIIPA carried out several initiatives aimed at educating members and keeping them abreast of the latest ML/TF/PF developments both locally and abroad.

They included:

Meetings

AMLCO Forum online - 13 January, 12 July, 15 October

Events

Annual AML/CFT Updates 2021 online training - 8 April

Participated in Spectrum conference regulatory outlook panel - In person - 21 July

Insolvency Practitioners Workshop online training - 2 August

Momentum - In person and remote conference - 9 December

Communications

CFATF: Cayman Islands 2nd Enhanced Follow-up Report & Technical Compliance Re-rating direct email - February

AML Themes Report 2020 direct email - April

National Risk Assessment Survey direct email - April

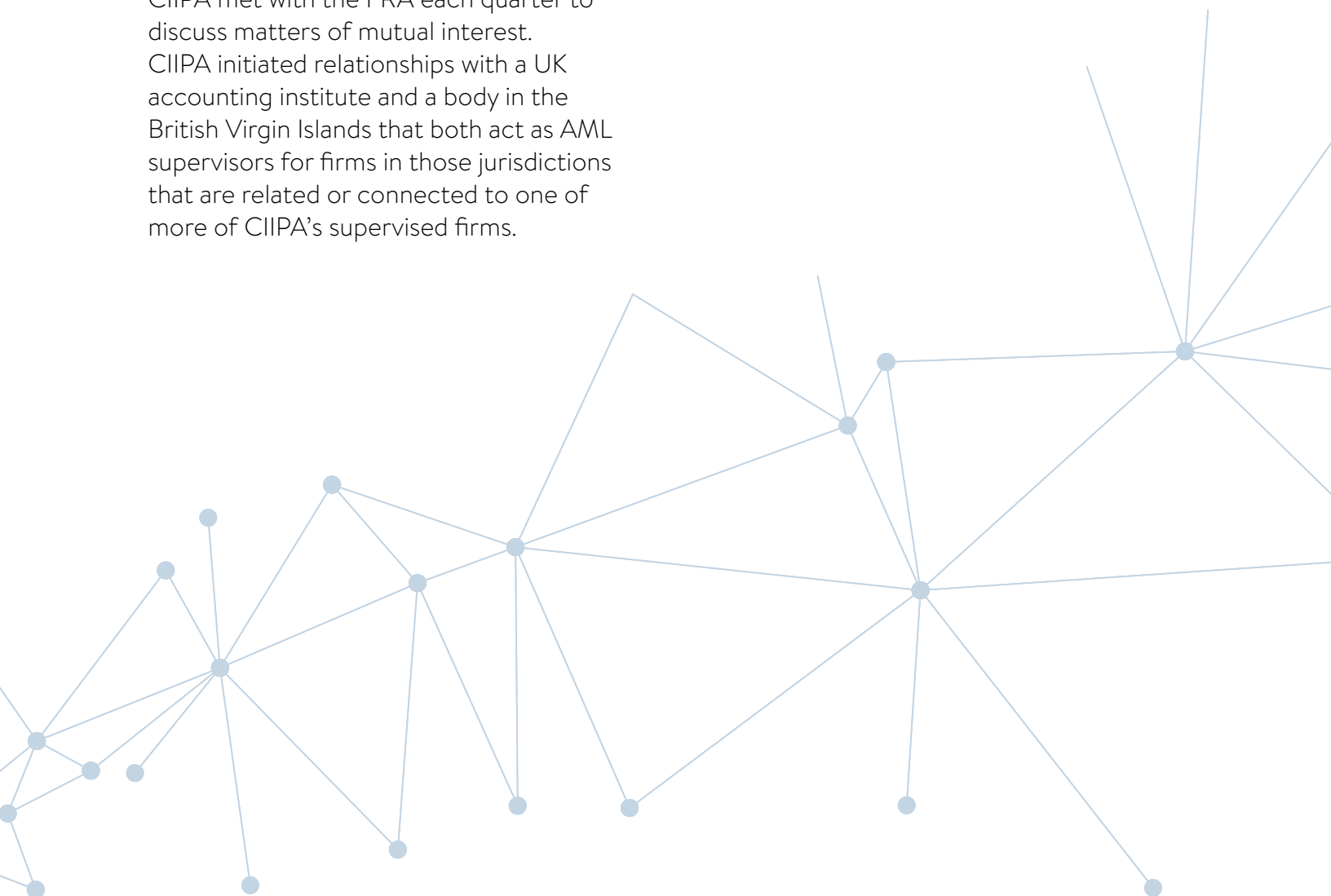
Country Risk Assessment Thematic Review Report
direct email - October



Cooperation

CIIPA continued to liaise with the other domestic AML supervisors both directly and through the AML Supervisors Forum pursuant to the Cayman Islands Multilateral Memorandum of Understanding.

CIIPA met with the FRA each quarter to discuss matters of mutual interest. CIIPA initiated relationships with a UK accounting institute and a body in the British Virgin Islands that both act as AML supervisors for firms in those jurisdictions that are related or connected to one of more of CIIPA's supervised firms.



Future Objectives & Outlook

CIIPA will continue its supervision of ML/TF/PF obligations to promote and work in collaboration with government and industry stakeholders to continue to demonstrate the robustness of the Cayman Islands AML/CTF/CPF framework.



Glossary of Acronyms

ACRONYM	TERM
BRA	Business Risk Assessment
CDD	Client Due Diligence
CRA	Client Risk Assessments
FATF	Financial Action Task Force
ML	Money Laundering
PEP	Politically Exposed Person
PF	Proliferation Financing
SDD	Simplified Due Diligence
TF	Terrorist Financing
UBO	Ultimate Beneficial Owners



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