

FOR Designated Non-Financial Businesses or Professions (DNFBPs)

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Welcome to CIIPA's AML Guidance Newsletter

This is the third edition of CIIPA's AML Guidance Newsletter, published as part of our AML Supervision Programme for DNFBPs. Issue 1 looked at the Business Risk Assessment (BRA) – the foundation of your firm's AML framework. Issue 2 turned to training, governance and demonstrating effectiveness. This issue moves from the firm to the individual file: customer due diligence on each appointment.

If you are registered with CIIPA and conducting relevant financial business – which includes insolvency and liquidation appointments – you are subject to the Anti-Money Laundering Regulations (2025 Revision) (the AMLRs). This newsletter is designed to help you understand what that means in practice, what CIIPA expects, and how you can demonstrate that your firm is meeting its obligations.

What you will find in this issue

This issue focuses on customer due diligence (CDD) in insolvency appointments. We set out guidance on who your customer is, explain the benefits of why every appointment need its own documented risk assessment, and look at when simplified and enhanced due diligence apply. We cover beneficial ownership in complex structures, source of wealth and source of funds, and how CDD and the risk assessment should operate across the life of the case – with a particular focus on the points where value leaves the estate, when assets are transferred and dividends are paid, and the sanctions checks that must be carried out at those points.

Focus Topic: Customer Due Diligence in Insolvency Appointments

Your Reg 8/8A BRA tells you what risks your firm faces across its work. CDD is where those risks are identified, assessed and managed for each individual appointment.

It is also where you can demonstrate that your risk-based approach is operating in practice, rather than only on paper. Every current and recently closed appointment file should be able to demonstrate the CDD performed on the customer, a documented risk assessment for the appointment, relevant screening results, enhanced measures where the level of risk requires them, and the checks carried out before any relevant distribution or transaction.

The legal requirement

The AMLRs (2025 Revision) set out the risk-based and CDD framework in Parts 3 to 8:

Part 3 (Regs 8 and 8A): assess and understand the ML, TF and PF risks in relation to the customer; the country or geographic area in which the customer resides or operates; the firm's products, services and transactions; and its delivery channels. The assessment must be documented and kept up to date, and all relevant risk factors considered when determining the overall level of risk and the appropriate mitigation to apply (Reg 8(1) 8(2) Regulation 8A sets out additional considerations when assessing country and geographic risk.

Part 4 (Regs 10-20): when CDD is required (Reg 11); identifying and verifying the customer and beneficial owner and understanding the purpose and intended nature of the relationship (Reg 12); ongoing due diligence (Reg 12(1)(e)); timing of verification (Reg 15); the duty to perform enhanced customer due diligence (EDD) (Reg 17); and the requirements where CDD cannot be completed, including circumstances involving potential tipping-off (Regs 18 and 19).

Part 5 (Regs 21-26): simplified customer due diligence (SDD), including eligible introducers (Reg 25).

Part 6 (Regs 27-28): enhanced customer due diligence.

Part 7 (Reg 30): additional requirements relating to politically exposed persons (PEPs).

Part 8 (Regs 31-32): record-keeping requirements.

Regulation 5(a)(v) requires adequate systems to identify risk in relation to persons, countries and activities, including checks against all applicable sanctions lists. Regulation 3(3) makes clear that responsibility for compliance remains with the person carrying out relevant financial business, notwithstanding any delegation or reliance on another person.

Who is your customer?

Insolvency CDD rarely looks like CDD on a new typical client relationship. There is a difference between solvent and insolvent liquidation, and client relationships will differ. Directors may be absent or uncooperative, and records may be incomplete, missing or unreliable.

That does not remove the obligation – it changes how you meet it. Firms should use every reasonable source available: including the company's own records, public registers, court documents, bank records, prior advisers and professional service providers, and information obtained through the exercise of the office holder's powers.

CDD should be started at the outset of the appointment and completed as soon as reasonably practicable, in accordance with the requirements of the AMLRs. Where verification is delayed or cannot be completed, firms should record what was attempted, when, and why it was not possible, and treat the gap itself as a risk factor.

Where CDD cannot be completed, Regulations 18 requires the firm to consider whether a suspicious activity report should be made. Regulation 19 also addresses circumstances where carrying out CDD may result in tipping off.

What your files should show

In an insolvency appointment, the customer will generally be the person or entity for whom the insolvency practitioner is appointed to act. The firm should determine and document who the customer is based on the nature and circumstances of the appointment.

CDD on the customer means identifying and verifying the customer, identifying and verifying its beneficial owners and, where applicable, the persons who control it, and identifying the ML, TF and PF risks presented by the appointment.

CDD focuses on the customer, but the risk assessment should consider the wider circumstances of the appointment and the parties and transactions relevant to the estate – in particular **creditors who will receive distributions**, as well as purchasers of assets and anyone providing funding to the estate. The nature of those parties, the transactions involved and the source and destination of funds should be considered as part of the firm's risk assessment.

The appointment-specific risk assessment

The BRA is a firm-wide document. It cannot, on its own, tell a reviewer how risky a particular appointment is or why a particular level of due diligence was applied.

To assist in demonstrating compliance with the AMLRs, the files should document a risk assessment of the appointment, prepared at the outset, drawing on the risk factors identified in the BRA, and reviewed as the case develops, including before significant activity such as the distribution of funds.

Risk area	What to consider for this appointment
The customer	The nature and sector of the business, how it made its money or why it failed, its trading history, adverse media, and any law-enforcement or regulatory interest. Pre-appointment conduct – including asset dissipation, transactions at an undervalue and preferences to connected parties – may be a significant indicator of risk.
Ownership and control	Who ultimately owns and controls the customer? Are there multi-layered structures, nominees, trusts or PEP connections?
Geography	Where the customer was incorporated and operated, where its assets and bank accounts are located, and where its creditors and counterparties are based – including exposure to higher-risk countries and sanctioned entities or individuals.
Assets and transactions	Cash, digital assets, high-value or portable assets, dual-use goods, unexplained receipts, and transactions that do not appear to have an apparent legitimate commercial rationale.
Creditors and distributions	The number and type of creditors, connected-party and related-party claims, claims that are unusual in size or nature, assigned or traded claims, and where and to whom distributions will be paid.
Other third parties	Purchasers of assets, litigation or estate funders, agents and anyone else paying money into, or receiving money from, the estate.

What the appointment risk assessment should record

- The date it was prepared, who prepared it and who approved it
- The appointment-specific risk rating, informed by the risk factors identified in the BRA and the reasons for the rating.
- The level of due diligence applied – including simplified or enhanced – and why
- Screening carried out on the customer, its beneficial owners and controllers, and the results
- Any enhanced measures taken, including source of wealth and source of funds enquiries, where applicable
- The circumstances or trigger points for reassessment, including before any distribution to creditors.

Customer due diligence, simplified and enhanced

The level of due diligence must follow the risk.

Applying the same checks to every appointment regardless of risk, or applying simplified measures without having assessed that the risk is lower – is one of the clearest signs that a risk-based approach is not working.

Level	When it applies	What it involves	In insolvency practice
Simplified (SDD) – Part 5	Where a low level of risk has been identified and assessed in accordance with Regulation 8, the lower-risk factors support the use of SDD, and the conditions in Part 5 are met. SDD cannot be applied where there is knowledge or suspicion of ML, TF or PF, or where the relationship presents a higher-level of risk.	Due diligence measures that are commensurate with the lower-risk factors identified. The basis for applying SDD should be documented on file.	Uncommon. Where SDD is considered appropriate, the file should clearly document the lower-risk factors and why the measures applied are proportionate to that lower risk– a reviewer will ask.
(CDD) – Part 4	The baseline CDD requirements for an appointment, unless simplified measures are permitted under Part 5.	Identify and verify the customer and beneficial owner, understand the ownership and control structure where applicable, understand the purpose and intended nature of the relationship; and conduct ongoing due diligence. Required screening and other risk-based measures should also be documented.	Most appointments. Verification may require use of registers, court documents, company records, bank records and other reliable, independent sources available through the appointment.
Enhanced (EDD) – Part 6, with additional PEP requirements in Part 7	Where higher ML, TF or PF risk is identified, or other circumstances specified in Regulation 27 apply, including PEPs relationships, certain higher-risk jurisdictions and unusual or suspicious activity.	Additional measures proportionate to the risk. Depending on the circumstances, this may include enhanced verification, source of wealth and source of funds enquiries, senior management approval, and enhanced ongoing monitoring.	More likely in cross-border liquidations, appointments involving PEPs or higher-risk jurisdictions, complex or opaque structures, unusual transactions, or significant pre-appointment concerns.

Beneficial ownership in complex structures

Cayman insolvency appointments frequently involve multi-layered structures, nominee arrangements and offshore holding entities.

CDD must look through the ownership and control structure to the natural persons who ultimately own or control the customer. Stopping at the first corporate shareholder is not sufficient. Where a trust sits in the structure, identify and verify, where applicable, the settlor, trustees, any protector, the beneficiaries or class of beneficiaries and any other natural person exercising ultimate effective control over the trust.

Where beneficial ownership cannot be verified, record the steps taken, what remains unresolved and why, and reassess the risk presented by the appointment. Where the circumstances result in a higher ML, TF or PF risk, enhanced due diligence should be applied. If the CDD cannot be completed, the requirements of Regulation 18 must be followed, including consideration of whether a suspicious activity report should be made.

Source of wealth and source of funds

These can be particularly important in higher-risk insolvency appointments, where the origin of assets and the movement of funds into and out of the estate may require closer scrutiny.

Where such enquiries are required or appropriate based on the risk, record the enquiries made, the evidence obtained and – importantly – the conclusion reached and the reasons for it. An unexplained or implausible explanation may be a red flag and should be escalated to your MLRO where it raises concerns requiring further review or gives rise to suspicion.

Know the difference

Source of funds is where the money involved in a particular transaction comes from – for example, the account a purchaser is paying from, and how those funds came to be in that account.

Source of wealth is how a person accumulated their overall wealth – for example, through business ownership, employment, inheritance or investments.

In higher-risk and EDD cases, consider whether the circumstances require enquiries into both. The question is whether the funds involved are consistent with what you know about the person, the customer and the circumstances of the appointment.

CDD and risk assessment across the life of the appointment

CDD is not complete once the customer has been verified. The risk profile may change as the appointment progresses, and particular attention should be given to points at which value leaves the estate, including when assets are transferred or sold and when distributions are made or dividends are paid.

Insolvency appointments can be relatively short or run for years. Investigations uncover new information, assets are recovered and realised, claims are lodged, assigned and adjudicated, and new parties become involved. The appointment risk assessment prepared at the outset should be treated as a live document, reviewed and updated as the appointment develops, including before significant asset transfer or distribution.

At these points the question is not only who the customer is, but **who is receiving value from the estate, where it is going, and whether any party is subject to targeted financial sanctions.** Funds and economic resources subject to an asset freeze must not be made available, directly or indirectly, to or for the benefit of a designated person subject to any applicable exception or licence.

Issue 1 set out the sanctions screening trigger points. The following table shows how CDD, the appointment risk assessment and sanctions checks should be applied at each stage of the appointment.

When to review the appointment risk assessment

- At the outset of the appointment
- When new parties are identified – purchasers, funders, creditors, assignees
- **Before an asset is transferred, sold or distributed in specie**
- **Before a dividend or distribution is made**
- When new information comes to light – including through investigations, adverse media, law-enforcement contact
- When relevant sanctions designations or jurisdiction risk change
- Periodically for long-running appointments, and before closure

Stage of the case	Key risks	CDD and risk assessment	Sanctions checks
Appointment	Unknown ownership and control; pre-appointment dissipation; PEP or higher-risk jurisdiction connections	Identify and verify the customer, its beneficial owners and controllers; complete the appointment risk assessment	Screen the customer, beneficial owners, controllers and relevant known counterparties; consider whether any assets or transactions may be subject to an asset freeze
Investigation and recovery	Proceeds of crime within the estate; connected parties; assets held through third parties or overseas	Update the risk assessment as new facts emerge; apply EDD where the circumstances result in higher risk	Screen newly identified relevant parties and consider the jurisdictions in which assets are held or transactions take place
Funds coming into the estate	Contributions from directors or connected parties; estate or litigation funding from unknown sources	Identify the payer and, where required or appropriate based on the risk, establish the source of funds	Screen relevant payers and funders before accepting funds
Asset transfer or sale	Sale at an undervalue or back to connected parties; purchase funds of unknown origin; assets moving to higher-risk jurisdictions	Consider the purchaser and relevant parties in the transaction; where they are subject to CDD requirements, identify and verify them and assess the source of funds; review the appointment risk assessment before completion	Screen relevant parties, including the purchaser and, where appropriate, the financial institution involved and the destination jurisdiction, before completion
Claims	False, inflated or assigned claims; connected-party claims	Verify significant or higher-risk claims proportionate to value and risk; identify assignees and understand any relevant changes in ownership or control	Screen relevant creditors, assignees and other parties for targeted financial sanctions at adjudication and before payment, where applicable
Dividends and distributions	Payment to a sanctioned, connected or unknown party; third-party or overseas payment instructions	Review the risk assessment; confirm payee identity and destination account, and resolve any discrepancies before payment	Refresh sanctions screening on payees and other relevant parties before payment, particularly where there has been a change in circumstances, a delay since the previous screening or an increased sanctions risk
Closure	Unresolved concerns; incomplete records	Final review of the risk assessment; confirm that outstanding concerns have been appropriately addressed, escalated or documented	Confirm that appropriate sanctions screening was completed in respect of relevant payment and retain screening and CDD records

When assets are transferred or sold

The realisation of assets is an important point of money laundering and sanctions risk in any insolvency.

The purchaser is paying money into the estate, and the transaction results in value leaving the estate. A purchaser may be connected to the insolvent entity or its directors, may be acquiring assets at an undervalue, or may present other ML/TF/PF or sanctions risks. The asset itself may carry risk, for example, property or other assets connected to higher-risk jurisdictions, goods subject to sanctions or export controls, or digital assets whose history is unclear.

The purchaser and other relevant parties to the transaction should be considered as part of the firm's risk assessment, and CDD should be applied where required or appropriate having regard to the circumstances and risk. For significant or higher-risk transactions this may include identifying the purchaser's beneficial owners, establishing the source of the purchase funds, and considering any connection to the customer or other parties involved in the insolvency. Transfers of assets in specie to creditors or shareholders should be considered in the same way as distributions from the estate.

An asset that is owned or controlled, directly or indirectly, by, a designated person may be subject to an applicable asset freeze. Where a firm knows or has reasonable cause to suspect that it is dealing with frozen funds or economic resources, those assets must be frozen and must not be made available to or for the benefit of the designated person, subject to any applicable exception or licence. Identify potential sanctions exposure early and, where concerns arise, obtain appropriate advice before dealing with the asset.

Before an asset is transferred the following should be on file:

- The purchaser or transferee has been identified and, where required or appropriate based on the value and risk, its beneficial owners have been identified and verified.
- Any connection between the purchaser and the customer, its directors or beneficial owners or controllers has been identified and considered.
- The source of the purchase funds is understood and, where appropriate, corroborated and consistent with what is known about the purchaser and transaction.
- Relevant parties have been screened for sanctions, with screening refreshed before completion where appropriate having regard to the timing, risk and any change in circumstances; the destination jurisdiction has also been assessed for sanctions risk.
- The asset itself has been considered, including its location, nature, any relevant dual-use or sanctions considerations, and whether it may be subject to an asset freeze or other sanctions restriction.
- Where concerns arise, they have been escalated to the MLRO before completion, with the concern, assessment and resulting decision recorded.

When dividends are paid

Distributions are a key point at which money leaves the estate and can present heightened money laundering and sanctions **risk**.

False or inflated claims can be used to launder proceeds of crime through the estate; connected parties may seek to recover assets through creditor claims; claims may be assigned to unknown parties before payment; and payment may be requested to a third party or an account in another jurisdiction.

Screening carried out when a claim was lodged or adjudicated is not sufficient. Sanctions designations and the circumstances surrounding a claim can change between adjudication and payment. **Firms should ensure that sanctions screening is current before a dividend or other distribution is paid, with screening refreshed where appropriate based on the risk, the time elapsed and any change in circumstances.**

The depth of checks should be proportionate to the size of the payment and the risk: a small, well-documented trade creditor may require less scrutiny than a large, recently assigned claim being paid to an overseas account. Your policies, controls and procedures (PCPs) should set out the thresholds, triggers and escalation arrangements your firm applies.

Before you distribute the following should be on file:

- The claim has been properly adjudicated and is supported by evidence of the underlying debt
- The creditor's identity has been verified to a level proportionate to the value and the risk
- Relevant parties have been screened for sanctions, with screening refreshed before payment where appropriate based on the risk, the time elapsed and any change in circumstances.
- Connected-party and related-party claims have been identified and appropriately scrutinised
- Where a claim has been assigned or traded, the assignee has been identified and screened, and the circumstances of the assignment have been understood and documented
- Payment is made to an account in the creditor's own name; any request to pay a third party or account in another jurisdiction has been questioned and the explanation documented
- When concerns arise, they have been escalated to the MLRO before payment, with the concern, assessment and the resulting decision recorded

Sanctions compliance when value leaves the estate

Sanctions compliance should be integrated into your CDD and transaction controls – and it is particularly important at the point of transfer or payment.

Your PCPs should make clear who is responsible for screening before a transfer or distribution, which applicable sanctions lists are used, how potential matches are assessed and resolved, and who is responsible for approving the transaction where a potential concern is identified. The screening record – including the date, the lists checked, the parties screened and the outcome – should be retained on the case file alongside the payment or completion record.

If screening identifies a potential match

- **Stop.** Do not complete the transfer or make the payment while the potential match is being investigated. Where it is not clear that the person or entity is not the designated person, do not proceed with the transaction while the matter remains unresolved
- **Check.** Establish whether it is a true match or a false positive, using identifying information, and record how you reached that conclusion
- **Escalate.** Refer any possible or confirmed match to your MLRO promptly in accordance with your firm's PCPs.
- **Freeze and report.** Where the match is confirmed, or you know or have reasonable cause to suspect that you are dealing with funds or economic resources of a designated person, freeze the funds or economic resources, do not deal with them or make them available to or for the benefit of the designated person, and report the matter to the FRA in accordance with the applicable sanctions regime.
- **Take advice.** Where appropriate, obtain legal or regulatory advice and, where a licence or other authorisation is required, ensure this is obtained before taking any step that would otherwise be prohibited.
- **Record.** Keep a full record of the potential match, checks undertaken, decisions taken, reporting or other actions made, and the reasons for them

Where sanctions concern also gives rise to a suspicion of money laundering, terrorist financing or proliferation financing, the MLRO should consider whether a suspicious activity report is required. Staff must not disclose that a SAR has been or may be made or otherwise provide information that could amount to tipping off the person concerned.

The legal requirement

Regulation 5(a) of the AMLRs (2025 Revision) requires firms to maintain, among other procedures:

(v) adequate systems to identify risk in relation to persons, countries and activities, including checks against all applicable sanctions lists;

(viiia) procedures for the assessment of one-off transactions and the ongoing monitoring of business relationships for the purposes of preventing, countering and reporting money laundering, terrorist financing and proliferation financing, including procedures for the identifying of assets subject to targeted financial sanctions applicable in the Islands;

(viiib) procedures to ensure compliance with targeted financial sanctions obligations applicable in the Islands.

These procedures should operate throughout the appointment – not only at the outset.

Reliance on others

Where you rely on an eligible introducer under Regulation 25, you remain responsible for compliance with the CDD requirements. The eligible introducer must provide the required assurances and make relevant identification and verification of information available on request and without delay. You should also ensure that any CDD information previously obtained by a former office holder or another professional is sufficiently reliable and current for the purposes of the appointment. Reliance does not remove the need for your own appointment risk assessment or your responsibility for compliance.

Records

Part 8 of the AMLRs requires CDD and transaction records to be retained, generally for at least five years, and made available without delay to competent authorities on request. In insolvency, the record of what you tried to establish is particularly important here information could not be obtained. Keep evidence of verification, the appointment risk assessment and each review, enhanced measures and conclusions, screening results and dates – particularly those undertaken before asset transfers and distributions – and evidence of any unsuccessful attempt to obtain information or complete verification.

What earlier inspections have found – and what it means for CDD

As Issue 2 highlighted, CIIPA's earlier monitoring rounds identified weaknesses in the application of the risk-based approach and in screening. Both have a direct bearing on the effectiveness of CDD.

In some cases, firms documented their risks but did not translate those assessments into appropriate controls, resulting in standard measures being applied regardless of the level of risk. Firms also screened clients but did not consistently extend screening to relevant transactions or third parties, and screening was in some cases inconsistent, not adequately documented or not performed at the appropriate time.

What your firm should do now

Action for your firm

1. Check your CDD procedures reflect the AMLR requirements for preventing, countering and reporting money laundering, terrorist financing and proliferation financing, and that your PCPs clearly explain how the firm determines who the customer is for an insolvency appointment and how CDD is applied.
2. Introduce or refresh an appointment risk assessment template: make sure every live appointment has a dated risk assessment, appropriately reviewed and approved in accordance with your PCPs, linked to your BRA and reflecting the specific risks presented by the appointment.
3. Test beneficial ownership on a sample of files: is ownership and control traced to the relevant natural persons? Where verification is not possible, are the steps taken, what remains unresolved and the reasons documented?
4. Review your EDD cases: where PEPs, higher-risk jurisdictions, complex structures or other higher-risk factors are present, is there evidence of enhanced measures proportionate to the risk, including source of wealth or source of funds enquiries where appropriate?
5. Set your pre-transfer and pre-distribution checks: document the CDD, risk assessment, sanctions screening and payment controls that apply before significant asset is transfers or one-off transaction and before dividends or other distributions. Your PCPs should set out the relevant thresholds, triggers and escalation arrangements.
6. Test your sanctions procedures: confirm who is responsible for screening before a transfer or payment, which applicable sanctions lists are used, how potential matches are reassessed, resolved and escalated, and that the screening and decision-making record is retained on file.
7. Spot-check your files: select a sample of appointments and check the CDD, appointment-specific risk assessment, ongoing reviews and relevant pre-transfer or pre-distribution checks are complete, current and properly evidenced.
8. Train your case teams: Ensure those responsible for insolvency appointments understand the above requirements and link this to the role-based training set out in Issue 2.

Contact CIIPA

If you have questions about your firm's AML obligations or the inspection programme, please contact CIIPA's regulatory team. We will also be publishing further guidance documents and holding AMLCO Forum sessions over the coming year – details will be circulated to all registered firms.

Next issue: Suspicious Activity Reporting – building a strong SAR culture, the role of the MLRO, and the tipping-off prohibition.

This newsletter is for guidance purposes and does not constitute legal advice. Firms should take independent legal advice where appropriate. The AMLRs (2025 Revision) and the Proceeds of Crime Act (2025 Revision) are the authoritative legal texts.