



FINANCIAL REPORTING AUTHORITY (CAYFIN)

CAYMAN ISLANDS GOVERNMENT

PORTFOLIO OF LEGAL AFFAIRS

ANNUAL
REPORT
2009/2010

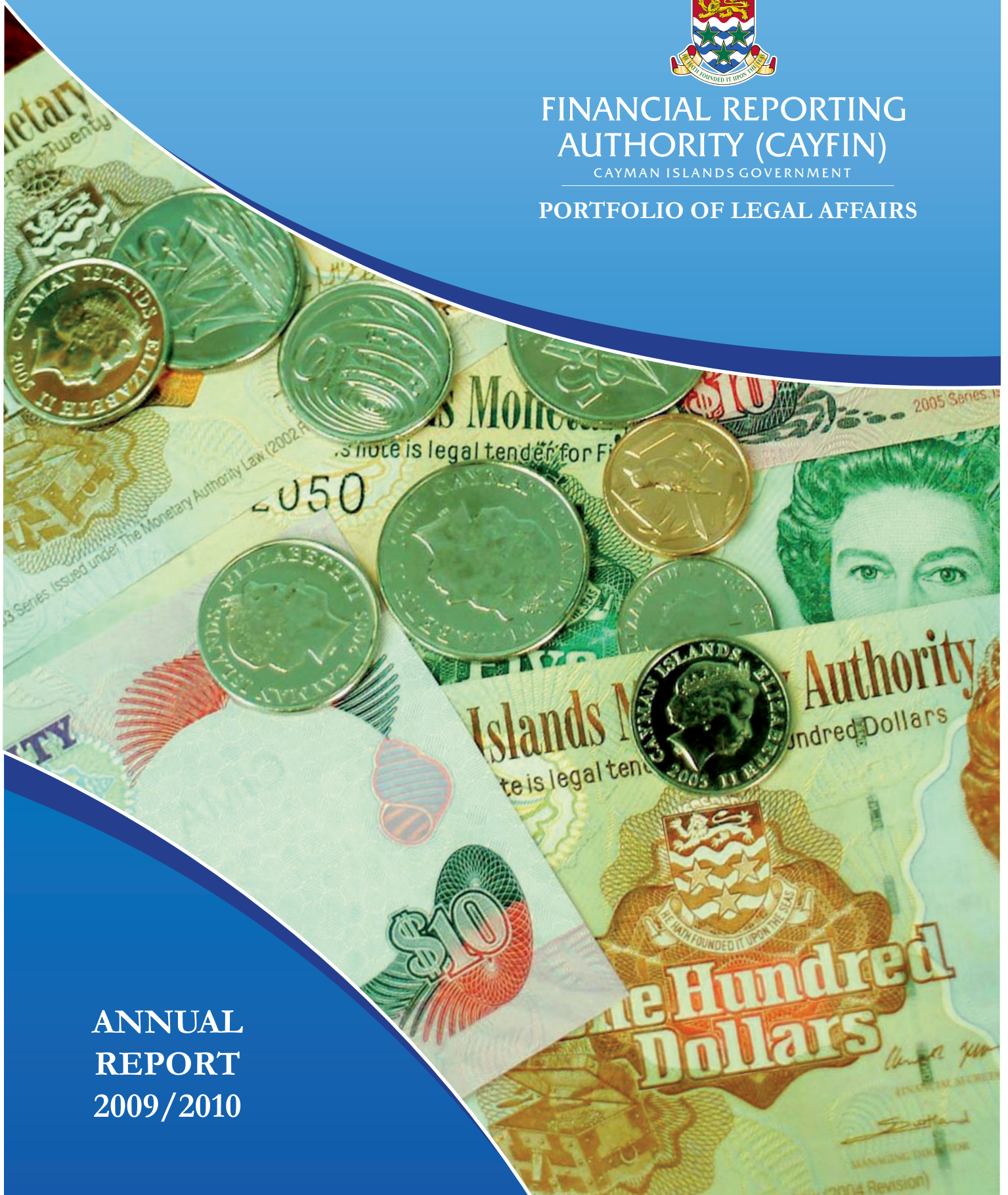


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Message from the Director

I am pleased to submit the Financial Reporting Authority's (FRA) report for the year ending June 30, 2010.

As we form part of the Cayman Islands commitment to the fight against global financial crime and in partnership with the private sector and law enforcement agencies, we collectively have a role to play in ensuring that our financial environment is hostile to money laundering, terrorist financing and other major crimes.

The 2009/2010 year marks our seventh reporting period and continues the trend of noticeable increases in SARs over the last three years. Of the 358 cases received during the year, work was completed on 317 whilst 41 were still in progress. During the same period, there were 69 onward disclosures made to our local law enforcement agencies, the Cayman Islands Monetary Authority (CIMA) as well as overseas Financial Intelligence Units (FIUs). Additionally, 60 of the 62 requests from our overseas counterparts were completed whilst we originated 51 similar requests arising from 38 cases. On the local scene, we sent out 70 requests for additional information from various entities to assist in our analysis all of which were responded to in a timely manner. We also completed work on all but 2 of the cases carried over from the previous year.

Whilst we cannot say with certainty the reasons for the increase in SAR reporting, it is indeed refreshing to know that vigilance within the industry has been at an all time high. The re-launch of our outreach programme with the reporting entities has no doubt helped to impress upon the industry the need to remain extra vigilant against the use of this jurisdiction for money laundering and terrorist financing and we will continue providing this forum to share ideas in the future.

We also continued providing assistance to our regional counterparts by hosting a member of staff from the British Virgin Islands for two weeks of training and learning the way we conduct our analytical processes. We were indeed delighted to have been chosen as host and trust that it was beneficial and meaningful to our guest and ultimately the FIU of the British Virgin Islands.

Our activities therefore involved interactions with a cross section of Cayman's business community and more than 59 countries around the world. This brings into sharp focus the usefulness of our membership of the EGMONT Group through which we share and request information with our partners in those countries by virtue of the connection of the various subjects. The sharing of intelligence with our counterparts is central to our mandate under the

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Proceeds of Crime Law 2008 (PCL) as we made 15 voluntary disclosures to different countries during the year.

We are indeed grateful and wish to thank our partners in the reporting entities, law enforcement and regulatory agencies for their support during the year. We are also grateful and thankful to the Anti-Money Laundering Steering Group (AMLSG) for its guidance and co-operation throughout the year. I also want to thank my staff and indeed recognise their hard work, commitment, dedication and tireless efforts to accomplish what we achieved in the year in review. I have every confidence that our dedicated staff will meet the challenges in the year to come.

Lindsey Cacho
Director

I. Who We Are

The FRA (known to its counterparts world wide by its computer call sign "CAYFIN") is the Financial Intelligence Unit (FIU) of the Cayman Islands and is the national agency responsible for receiving, and (as permitted) requesting, analysing and disseminating disclosures of financial information concerning proceeds of criminal conduct, in order to counter money laundering, terrorism, the financing of terrorism or suspicions of any of those crimes.

The FRA is a product of evolution which first began as the Financial Investigation Unit in the early 1980s, operating within police headquarters. By year 2000, it had undergone a name change to the Financial Reporting Unit (FRU) with the Head of Unit becoming a civilian post and the appointment of a legal advisor. Line management for operational work now came under the office of the Hon. Attorney General. The role of the Unit prior to the commencement of the PCCL however, remained throughout as the receiver of SARs, analyser, investigator and gatherer of evidence to support prosecutions.

While this remains the FIU model in some countries, the Cayman Islands along with others had discovered advantages gained from separating the functions of intelligence and evidence gathering; briefly these are:

- There was a healthy review of the work undertaken by each subsequent player in the process from SAR to courtroom and,
- As the majority of SARs are based upon "suspicion" not every piece of confidential financial information needed to end up automatically in a police database.

Both attributes are instrumental in the due process of justice and the latter an important consideration in the FIU being styled as a helpful 'buffer' type body between the confidential needs of a vigorous, competitive financial industry and combating crime by law enforcement.

In striking the balance of selection between the various styles of FIUs, the decision was taken by the Cayman Islands' authorities to operate as an administrative type unit from early 2004 and the FRA was created under its new name by the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL), which came into force on 12th January, 2004. It then became a full fledged civilian body and its purpose changed from an investigative to an analytical type FIU. Its mandate was therefore restricted to the receipt and analysis of financial intelligence coupled with the ability to disseminate that information to agencies where authorised to do so by the PCCL. Its existence and independence were confirmed in the Proceeds of Crime Law 2008 which repealed and replaced the PCCL and came into force on 30th September 2008. The investigative mandate is

now undertaken exclusively by the Royal Cayman Islands Police Service in relation to cases with local concerns.

Our Main Objective

- To serve the Cayman Islands by participating in the international effort to deter and counter money laundering and the financing of terrorism.

Our Legislation

- Proceeds of Crime Law (2008)
- Misuse of Drugs Law (2009 Revision)
- Terrorism Law (2009 Revision)

Our Principal Activities

- Receive, analyse and disseminate disclosures of financial information concerning the proceeds of criminal conduct, money laundering and the financing of terrorism.

Our Principal Products

- Financial intelligence is the end product of analysing one or several related reports that the FRA is mandated to receive from financial services providers and other reporting entities.
- Our ability to link seemingly unrelated transactions allows us to make unique intelligence contributions to the investigation of money laundering and terrorist financing activities.
- To provide timely and high quality financial intelligence to local and overseas law enforcement agencies (through their local FIU) in keeping with the statutory requirements of the PCL.

Governance

We are under the guidance of the AMLSG which consists of the

- Honourable Attorney-General (Chairman)
- Honourable Financial Secretary (Deputy Chairman)
- Commissioner of Police
- Collector of Customs
- Managing Director of Cayman Islands Monetary Authority
- Solicitor General

The AMLSG has responsibility for oversight of the anti-money laundering policy of the Government and it determines the general administration of the business of the FRA. It also reviews the annual reports submitted by the Director, promotes effective collaboration between regulators and law enforcement agencies and monitors our interaction and cooperation with overseas FIUs.



The FRA team (from left to right) back row: Mr. Roman Reyes, Senior Accountant, Mrs. Elena Jacob, Financial Analyst, Mr. Julian Hurlston, Financial Analyst, Mr. Adam Roberts, Legal Advisor, front row: Ms. Sharon Dhamalie, Administrative Manager and Mr. Lindsey Cacho, Director

Our Organisation

Building Organisational Effectiveness

The FRA recognises the vital significance of a healthy and well managed organisation that sustains performance. In particular, we maintain strong focus on the effective management of our human, technological and financial resources.

In line with Government efforts to cut costs, the FRA in 2009/2010 used a range of strategies to meet budgetary constraints while ensuring that staff were provided with adequate training to improve analytical capabilities. Throughout the year, members of staff attended 23 days of conferences and seminars which included the CFATF/FATF Joint Typologies Exercise, the 10th Annual FIBA Anti-Money Laundering Conference, the 15th Annual ACAMS International Anti-Money Laundering Conference and the Offshore Alert Financial Due Diligence Conference.

We also participated and gained valuable experience from the 18 days spent representing the FRA at the CFATF Plenary and Heads of FIU Meeting, the Egmont Plenary and the CFATF Training Meeting.

These learning and development opportunities combined with the implementation of enhanced software tools have enabled a more advanced level of analysis.

In line with our commitment to assist our regional counterparts, we hosted Ms. Delia Jon Baptiste of the British Virgin Islands FIU from November 16-27, 2009 to acquaint her with the analytical processes used by the FRA.

Protecting Confidentiality of Information

The PCL provides the framework for the protection of information obtained by the FRA. A layered approach to security has been adopted for the FRA's office and systems. The protection of financial information received from reporting entities is a critical function. Our computer security prevention measures include advanced firewalls to prevent unauthorised access to our database. Staff is aware of its responsibilities to protect information and severe penalties exist under the law for the unauthorised disclosure of the unit's data.

We constantly review our security procedures to ensure that they remain current in our continued effort to maintain confidentiality.

Our Relationships

Working with Financial Service Providers and Other Reporting Entities

The FRA recognises that the quality of financial intelligence is influenced directly by the quality of reports we receive from financial service providers and other reporting entities. If they are to produce insightful and relevant reports of superior quality, it is of utmost importance that they understand and are able to comply with the requirements of the PCL to which they are subject.

Towards this goal the FRA continues to recognise the vital importance of working with financial service providers and other reporting entities to raise awareness and understanding of their legal obligations under the PCL by meeting with MLROs to share matters of mutual interest.

The Egmont Group

The Egmont Group is an informal association of FIUs which now comprises 120 member countries. It sets standards for membership as well as expanding and systematizing international cooperation in the reciprocal exchange of financial information within its membership. The Cayman Islands' commitment to abide by the Egmont Group Principles for Information Exchange preceded its admission to full Egmont membership in the year 2000. We will continue to

participate in the Egmont Working Groups as well as the Director attending the Egmont Plenary and the heads of FIU meetings.

Memoranda of Understanding (MOUs)

The FRA can exchange information with other financial intelligence units around the world with regards to information in support of the investigation or prosecution of money laundering and /or terrorist financing. However some FIUs are required by their domestic legislation to enter into arrangements with other countries to accommodate such exchanges. In this context the FRA is empowered by the PCL to enter into bi-lateral agreements with its counterparts in giving effect to the concept of global sharing of information.

We have signed and exchanged 11 MOUs with the FIUs from Australia, Canada, Chile, Guatemala, Honduras, Indonesia, Mauritius, Nigeria, Panama, Thailand and the United States. There are at present 2 more MOUs under negotiation, one of which was recently concluded and is awaiting signature.

The Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF) is an organisation of thirty states of the Caribbean Basin, which have agreed to implement common countermeasures to address the problem of criminal money laundering. It was established as the result of meetings convened in Aruba in May 1990 and Jamaica in November 1992.

The main objective of the CFATF is to achieve effective implementation of and compliance with its recommendations to prevent and control money laundering and to combat the financing of terrorism.

The Mutual Evaluation Programme (MEP) is a crucial aspect of the work of the CFATF as it helps the CFATF Secretariat ensure that each Member State fulfils its obligations of membership. Through this monitoring mechanism the wider membership is kept informed of what is happening in each Member Country that has signed the Memorandum of Understanding. For the individual Member, the MEP represents an opportunity for an expert objective assessment of the measures in place for fighting money laundering and the financing of terrorism framework at the time of the visit.

CFATF Third Round of Mutual Evaluation and Follow-Up Reports

The third evaluation of the Cayman Islands' anti-money laundering (AML) and combating the financing of terrorism (CFT) regimes by the CFATF concluded on 23 November 2007 with the official approval of the report by the CFATF at its 26th Plenary and 14th Ministerial Meeting in San José, Costa Rica. The evaluation was based on the assessment team's June 2007 visit and it reported a "strong compliance culture" in the Cayman Islands' financial services sector. The evaluation rated the Cayman Islands 'compliant' or 'largely compliant' with 38 out of the 40 Financial Action Task Force (FATF) AML recommendations and the nine CFT special recommendations (known as the FATF 40+9). This compares favourably with third-round evaluations to date of FATF countries.

Further updates to the Recommendations have been provided at the CFATF Plenaries with progress reported in all but a few recommendations. The second written follow-up report by Cayman Islands to the CFATF Plenary dated May 25, 2010 was presented in the CFTAF Plenary in Santo Domingo, Dominican Republic in June 2010. It has been recommended that the Cayman Islands be asked to make its final report in November 2010 on the remaining recommended actions in progress.

For further information see the news release section at www.caymanfinance.gov.ky.

Cayman Islands Guidance Notes Committee

The FRA became a member of the Guidance Notes Committee (GNC) in 2006-07. The GNC is comprised of industry association, government, and Cayman Islands Monetary Authority representatives. The GNC is tasked with reviewing and updating the *Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands*. The Guidance Notes provide general guidance for financial service providers and other entities conducting relevant financial business on the interpretation and application of the Money Laundering Regulations (2009 Revision). The Guidance Notes were last updated in March 2010. While the Guidance Notes should not be relied upon in respect of points of law, they will be taken into account by the courts in determining whether a person has complied with the Money Laundering Regulations.

II. The Year in Review

2009/2010 Cases

In 2009/2010, the FRA received 358 new cases as compared to 320 cases received in 2008/2009 and the 247 cases in 2007/2008. The following table shows the disposition of the cases as at 30 June for the past 3 years:

Disposition	No of Cases		
	2009-10	2008-09	2007-08
Cases Analysed Requiring No Further Immediate Action	187	118	98
Disclosed to CIMA only	22	17	4
Disclosed to CIMA and Overseas FIU	2	6	0
Disclosed to CIMA and RCIP	3	8	2
Disclosed to RCIP only	20	47	27
Disclosed to RCIP and Immigration	7	1	0
Disclosed to RCIP and Overseas FIU	0	7	3
Disclosed to HM Immigration only	1	1	0
Disclosed to HM Customs only	1	0	0
Disclosed to Overseas FIU only	13	22	34
Reply to Requests Local	1	0	0
Reply to Requests from Overseas	60	57	45
In Progress (as at 01 July 2010)*	41	36	34
Total Cases	358	320	247

* - includes 2 overseas requests for information

We completed the review of 317 cases out of the 358 received during the year leaving 41 cases in progress at year end. We also completed the review of 34 cases carried over from 2008/2009. Of the 317 new cases analysed more than half were deemed to require no further immediate action which increased by 58% from the 118 in 2008/2009.

It is noticeable that the total number of voluntary disclosures declined from 109 in 2008/2009 to 69 in 2009/2010. The most significant decline came from disclosures made to the RCIP which declined by 57%. Onward disclosures to Overseas FIU also declined by 41%. The level of voluntary disclosures made in 2009/2010 matched those that were made in 2007/2008.

Significant Events

The FRA Outreach Programme

This year the FRA re-launched its Outreach Programme with financial service providers and other reporting entities to raise their awareness and understanding of their legal obligations under the PCL. To date, we have conducted two meetings both of which were received favourably by the attending MLROs and we will continue in this direction in the year to come.

The CFATF/FATF Joint Typologies Exercise

The Cayman Islands served as the CFATF Deputy Chair for the CFATF and the FATF Joint Typology Exercise at the Ritz Carlton, Grand Cayman during November 18-20 2009. The exercise provided us with an opportunity to brainstorm and exchange ideas with our overseas counterparts.

The FATF/ CFATF are currently running five typology projects (Free Trade Zones, New Payment Methods, Global Threat Assessment, Trust and Company Service Providers – a project being led by CFATF - and Operational Issues) and there was a workshop on each of these five topics during the exercise. The workshops together with the discussions on the workshop's conclusions not only helped to educate the participants - they were also used by those involved in the projects to validate their own work and research, and also helped to identify any gaps that might still exist in their own knowledge and work.

During the meeting the Cayman Islands Government reiterated its commitment to uphold the pillars of the financial services industry; quality, stability and integrity.

Freezing Order

This year was only the second time that the Director had exercised his powers under section 4 (2) (b) and (3), ordering any person to refrain from dealing with a specified account, as he had reasonable cause to believe that the information related to proceeds or suspected proceeds of criminal conduct; the first time was in 2005.

Information was supplied to the FRA relating to an action before the Cayman courts. It seemed to the person making the report that the contents of the account were tainted money and that it was likely that the funds would be moved out of Cayman, following the court's indication that it was no longer willing to freeze the account. The FRA with the assistance of the Legal Department sought

and was given the court's permission to exercise its powers under section 4 (2) (b), and papers were served immediately following the hearing. The matter was then handed over to the Honourable Attorney General who had indicated that he would be pursuing his own powers of freezing and confiscation under the PCL.

Proceeds of Crime Law

This has been the first full year of working with the Proceeds of Crime Law 2008 (PCL), which came into effect on September 30th 2008

The FRA staff gave a number of presentations to help educate the industry on the scope of the new Law and the transition has been a smooth one with most people welcoming the consolidation in one place of the major anti-money laundering provisions, whereas before these were in three separate pieces of legislation.

The Law re-defined, clarified and simplified the offences relating to money laundering and the obligation to make reports of suspicious activity to the FRA, introducing the concept of negligence to the duty of disclosure, imposing a duty to report if the person receiving the information knows or suspects or has reasonable grounds for knowing or suspecting that another person is engaged in criminal conduct, if that information came to him in the course of a business in the regulated sector or other trade, profession, business or employment.

The other major new development was widening the definition of criminal conduct. Both for the purposes of confiscation under Part III and money laundering considerations under Part V, criminal conduct is now defined as any offence committed in the Cayman Islands or which would have constituted an offence if committed in the Cayman Islands. It was previously confined to indictable offences; this has simplified the task of assessing whether a particular set of facts falls within the PCL and satisfies the 'dual criminality' provisions.

The FRA has made use of the new 72 hour limit within which a request for further information must be answered and has assisted, advised and cooperated with the industry to make this workable.

During this year, Cabinet approved the mandatory use of a standardised form for making reports of Suspicious Activity; most practitioners were already using the form, but this important step has helped with the processing of data and it is hoped that the standard of data will continue to improve with the help of the FRA Outreach programme.

The PCL made great strides toward consolidating legislation concerning the fight against money laundering and terrorism financing. However, important reporting requirements still exist under the Terrorism Law (2009 Revision). Part III concerns terrorist property and contains similar provisions to those found at Section V of the PCL, creating offences and requiring reports to be made to the FRA if a person believes or suspects that one of those offences has been committed. While the confiscation orders previously contained in the Misuse of Drugs Law have been repealed and can now be found in the PCL, there are still sections dealing with seizure and holding of money upon arrest for drug trafficking, and the power to order forfeiture upon conviction.

III. The Work of the FRA

Money Laundering

Money laundering is the process of making illegally-gained proceeds (i.e. "dirty money") appear legal (i.e. "clean"). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the "dirty money" appears "clean." Money laundering can facilitate crimes such as drug trafficking and terrorism, and can adversely impact the global economy.
(Source: FinCEN website)

Terrorist Financing

"Simply, the financing of terrorism is the financial support, in any form, of terrorism or of those who encourage, plan, or engage in it. Some international experts on money laundering continue to find that there is little difference in the methods used by terrorist groups or criminal organizations in attempting to conceal their proceeds by moving them through national and international financial systems."
(Source: 2005 Report of the United States Government Accountability Office)

Receiving Information - Suspicious Activity Reports (SARs)

The FRA receives information from reporting entities relating to suspected money laundering, proceeds of criminal conduct, terrorism and the financing of terrorism.

Anyone who initiates a disclosure has a defence to any potential related money laundering or terrorist financing offences. Disclosures made under the Law do not breach the Confidential Relationships Preservation Law nor do they give rise to any civil liability. **An important exception to this rule is that it is no defence to such liability if the person making the report is also the subject of the report.**

Reporting Activity Review

Chart 3.1 below shows the total number of cases by financial year since 2005/2006. In 2009/2010 the FRA received 358 new cases which is 38 cases more than 2008/2009. The trend in 2009/2010 has shown that the number of cases continues to increase. This is an indication that the vigilance of the reporting entities is not waning.

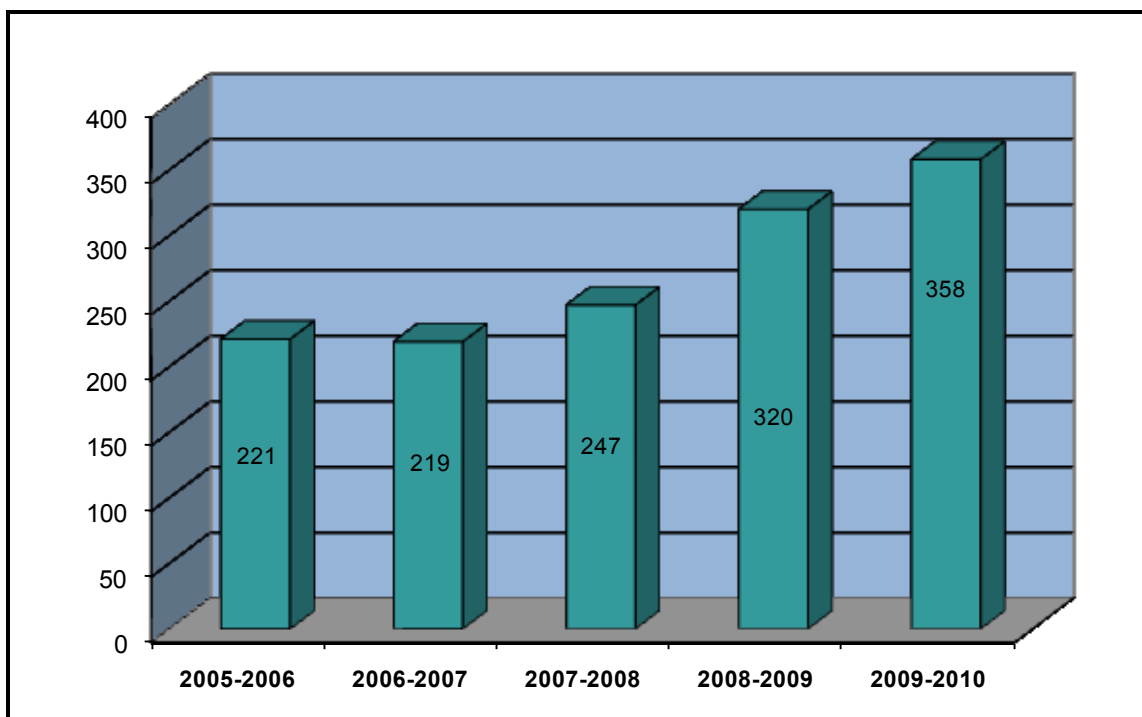


Chart 3.1: Total cases by financial year

The 358 cases in 2009/2010 involved 454 legal entities and 617 natural persons. Chart 3.2 below shows the trend of the continuing increase in the total number of subjects to 1,043 in 2009/2010 from the 493 in 2006/2007.

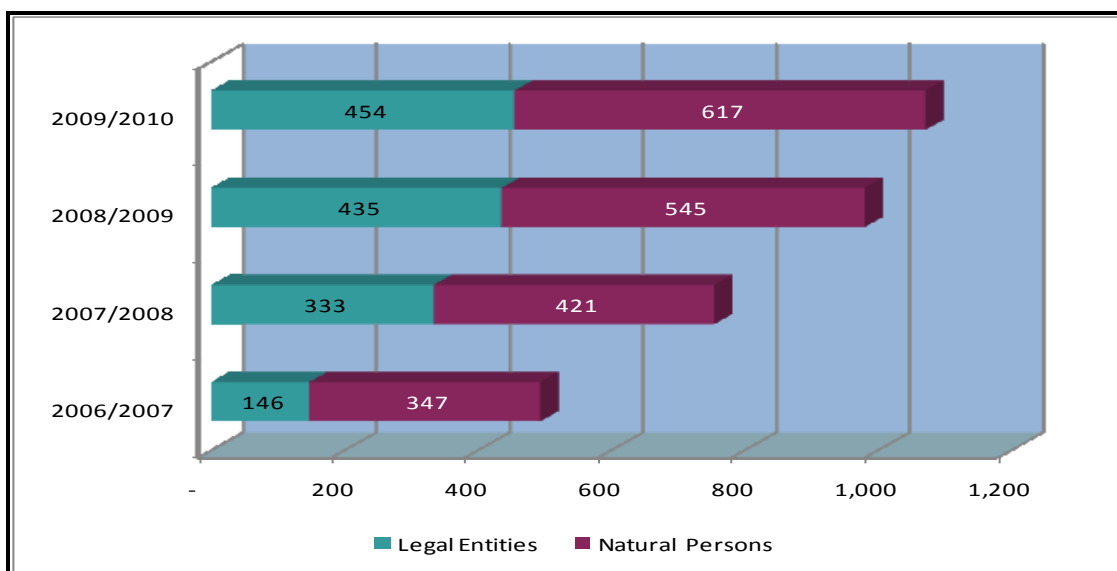


Chart 3.2: Number of subjects by financial year

For the first half of 2009/2010, the number of cases received each month exceeded those of the year before. The months of November and December saw the largest number of cases received with 40 and 35, respectively. While March to June were the busiest months in 2008/2009, those months were relatively average for 2009/2010.

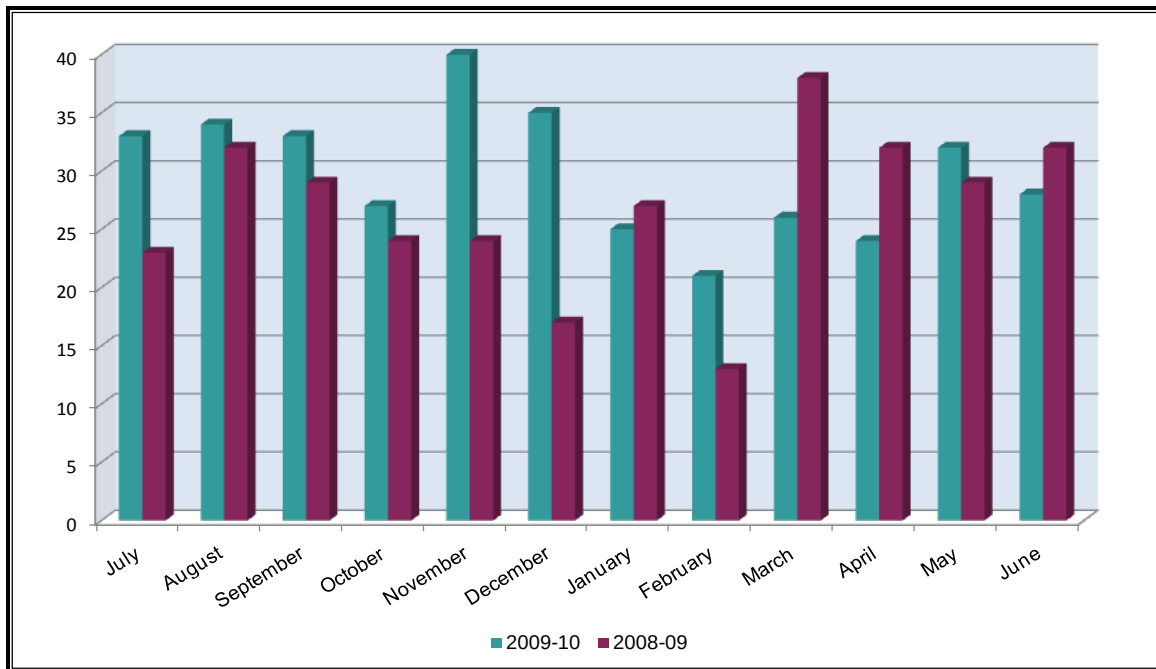


Chart 3.3: Comparison of monthly cases received

Sources of Cases

Chart 3.4 below shows a detailed breakdown of the sources of cases. Of the 358 cases received during 2009/2010, the five largest contributors made up 303 of the total cases received. They were:

- Banks - 132
- Overseas Financial Intelligence Units - 62
- Trust Companies - 46
- Company Managers - 39
- Money Transmitters - 24

The remaining 55 were from a wide variety of sources which are displayed on the chart below. Banks continue to represent the largest source of cases further increasing their overall percentage from 31% last year to 37% this year. The number of cases have also increased from 100 to 132.

We have seen significant increases in the number of cases filed by money transmitters which increased from 8 cases in 2008/2009 to 24 cases in 2009/2010. Other significant increases over the previous year came from trust companies which went up from 30 to 46 cases and insurance managers which went up from a single case to 8 cases.

Decreases came from attorneys which declined by 67%, CIMA which declined by 70%, securities brokers/dealers and real estate brokers which both declined by 100%, respectively.

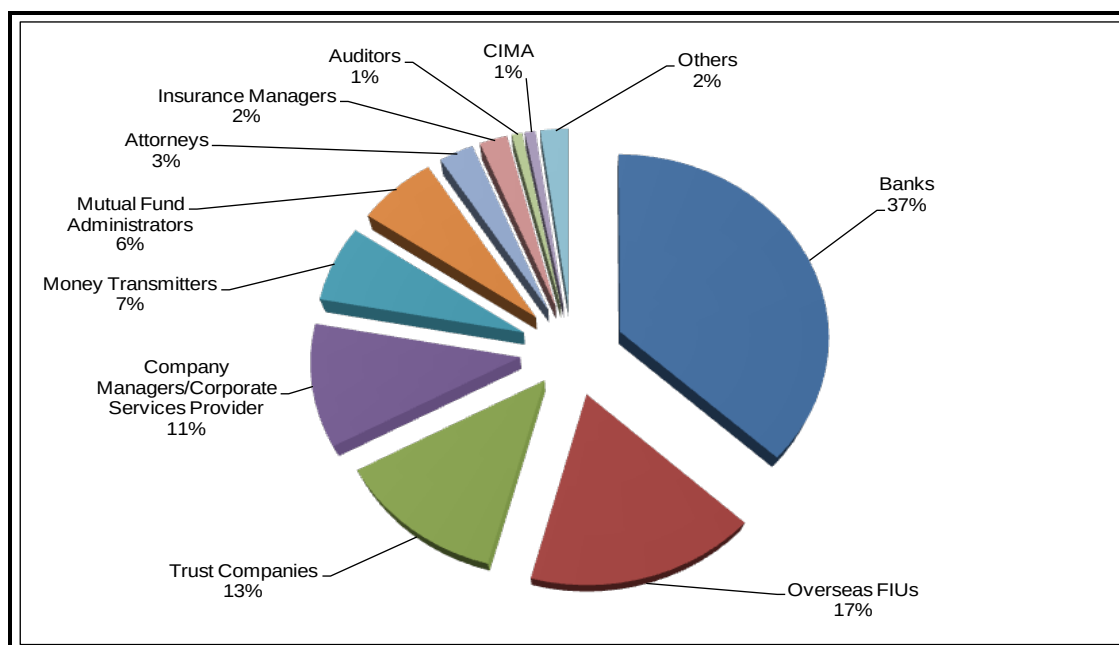


Chart 3.4: Sources of cases

Reasons for Suspicion

The five most common reasons for filing reports are:

- suspicious financial activity - 135
- fraud - 85
- declined business - 26
- money laundering - 24
- and retrospective due diligence - 18

Chart 3.5 below provides the detailed breakdown of the reasons for suspicion.

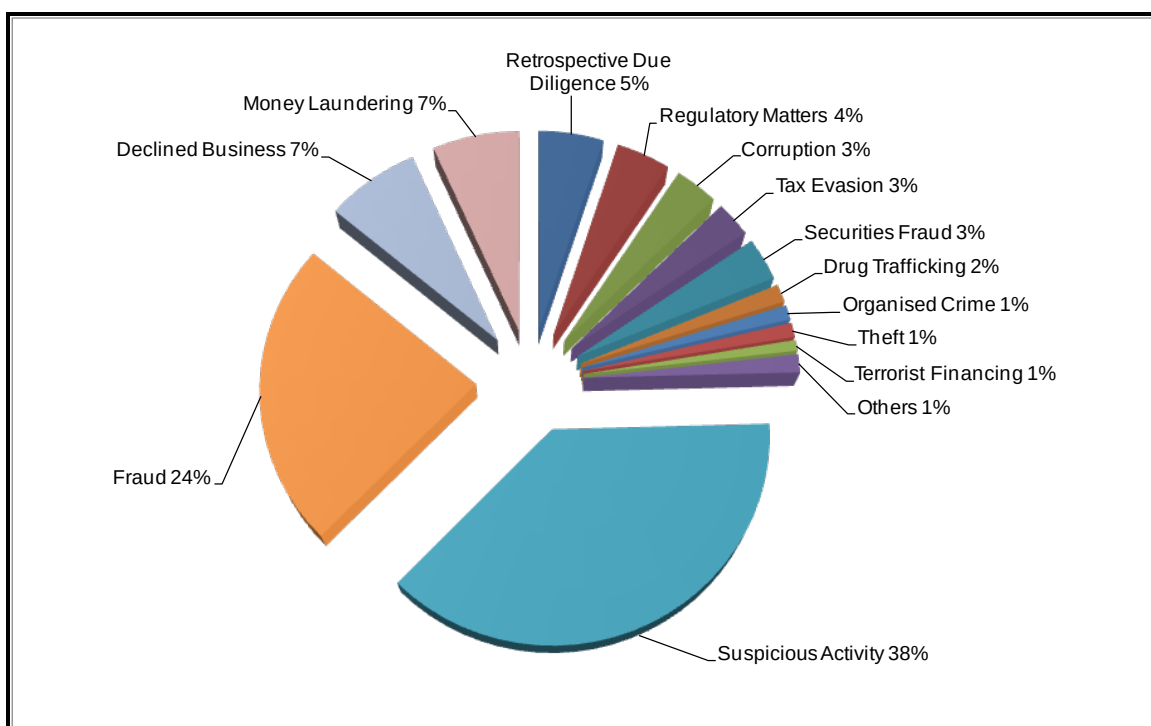


Chart 3.5: Reasons for suspicion

Countries of Subjects Reported

The international scope of the Cayman Islands' financial services industry is reflected in the wide range of subjects' countries reported in cases. The "Countries of Subjects" chart lists 66 different countries for the primary subjects of the reports, a slight increase from 64 last year. In light of the international character of the subjects reported, our membership in the Egmont Group has proven a valuable resource for information exchange, and has enhanced the analysis of information reported and the development of intelligence. As in our report last year the greatest number of primary subjects is from the United States and increased by 11 to 73. The largest increase in the number of main subjects was from Canada which went from 10 to 28. Subjects can be persons or legal entities.

In some cases, particularly those relating to declined business and scam related activities, the nationality or domicile of the subject are not known. Those subjects comprise the "unknowns" on the chart on the next page.

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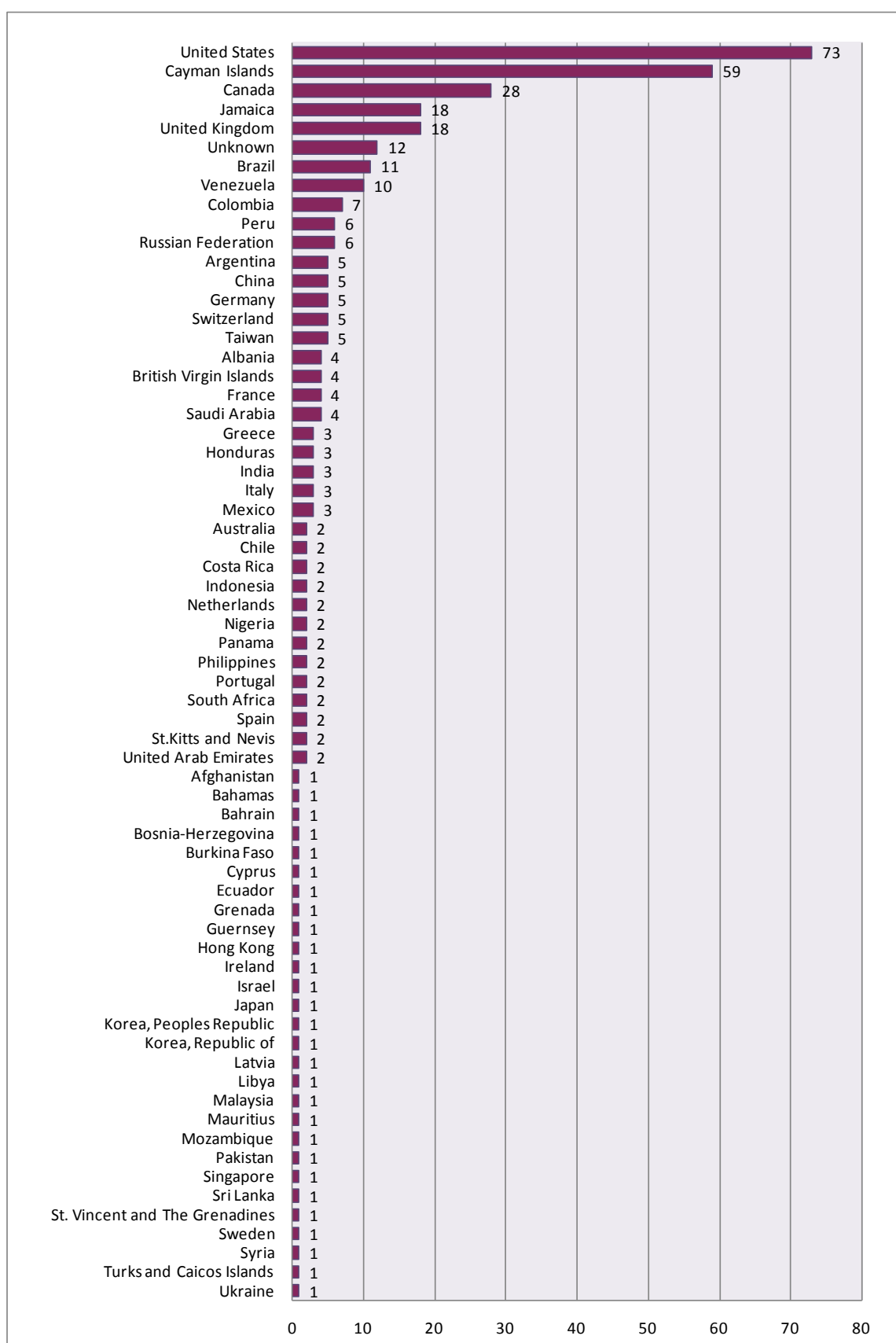


Chart 3.6: Countries of main subjects in cases reported in 2009/2010

Analysing Information

Analytical Capacity

The FRA conducts in-depth research and analysis using a combination of knowledge, analytical expertise and advanced technology. One important element of our analysis is the ability under the PCL to request information from any person for the purpose of clarifying or amplifying information disclosed in a SAR or at the request of our overseas counterparts. Failure to provide this information within 72 hours is an offence under the PCL. A second important element is our ability to request and exchange information with Egmont Group members, with whom we communicate through the Egmont Secure Web.

During the year, we made 70 requests locally to clarify or amplify information received in 63 SARs. We also made 51 requests for information with our overseas counterparts via the Egmont Secure Web for the 38 SARs. These requests have greatly assisted in our determination to make disclosures to our overseas counterparts.

Cases are analysed along with other information, to develop financial intelligence in order to detect suspected money laundering and terrorist activity financing. The goal is to determine whether the required statutory threshold for onward disclosure to law enforcement agencies has been met. The statutory threshold is that the FRA has cause to suspect that criminal conduct has been committed. Based on our analysis, once we determine that the statutory threshold is met, the FRA discloses the information to the appropriate law enforcement agency or overseas FIU.

SARs Trend Analysis

The majority of cases received by the FRA in 2009/2010 related to suspicious activity and originated from local financial services providers. Declined business resulted in a larger number of cases being filed increasing from 3% last year to 7% this year and while the overall number of cases concerning fraud had insignificant changes, its overall percentage decreased by 3%. The other decreases were in money laundering cases which decreased by 4% and securities fraud which decreased by 2%.

Suspicious Activity

Consistent with the prior year, the majority of cases received in 2009/2010 were due to suspicious activity. A typical case can involve the structuring of deposits and/or withdrawals, as well as electronic wire transfers, in an attempt to remain under the radar of the reporting thresholds of monitoring bodies. Another reason for this type of case is that the account activity does not fit the account profile, for example, if deposits to the account are exceeding the expected level of income, or if the account activity is not in line with the stated purpose of the account. In other cases, negative media reports or court orders regarding the account holder can also lead to a suspicious activity report.

Additionally, another reason could involve the remittance of large sums of money overseas through local banking and money services agencies by persons whose known sources of income are inconsistent with the amounts sent. Many times this is done by sending funds in smaller amounts daily and weekly using multiple locations.

Internet Fraud

Internet fraud is a growing concern for law enforcement. As technology has become an integral part of business and government processes, criminals also have come to rely on technology as a tool to support their illegal operations. The Internet crosses international borders, making laws that apply to the Internet difficult to enforce. The FRA has seen several cases where fraudulent websites have been set up which closely mirror a legitimate website (typically a bank). Investors who send their money to the “bank” end up losing their money. Fraudulent websites have also been used for investment and securities fraud. These sites create hype to inflate the value of a given stock. The fraudsters then sell out at the inflated value. This is known as a “pump and dump” scheme.

Scenarios that Would Trigger Filing of a Suspicious Activity Report (Typologies)

1. Money Transmitters

A foreign national employed as a cashier with a local company for the past four years frequently remitted funds through a local money transmitter to various individuals in two different countries, sending a total of CI\$35,000.00 over a five month period and CI\$38,000.00 over another three week period. The remittances were all under the money transmitter’s reporting threshold and therefore a declaration of the source of funds was not required.



It was later learned by the money transmitter that the foreign national used two different addresses in Cayman to send funds and also presented different driver’s licences as forms of identification, one from the Cayman Islands and the other from another jurisdiction. The money transmitter noticed that the foreign national used three different branches to transfer funds.

The foreign national’s volume of transactions did not coincide with his stated occupation and salary.

This information was disclosed by the FRA to the RCIPS for intelligence purposes.

Indicators:

- Use of different branches of a money transmitter to transfer funds
- Structuring of funds to remain under reporting threshold

2. Suspicious Activity

A foreign national arrived in the Cayman Islands for a holiday. He arrived with three cheques of substantial amount in his possession; two of the cheques were in his name and one was in the name of a relative. The cheques were deposited individually over the course of ten days. During approximately the same period, the person made twelve cash withdrawals totaling slightly more than the amount of his deposits. Six withdrawals were made over two days in equal amounts at different times with different bank tellers.

There was no reason for this person to deposit the cheques on separate occasions when he arrived with them in his possession. This person knew the bank would not pay out such a large amount in cash at once and therefore structured his withdrawal transactions to avoid detection by the bank. This information was disclosed by the FRA to the FIU of the foreign national's home country.

Indicators:

- Structuring
- Use of non-domestic bank account

3. Money Laundering

A foreign company from a non schedule 3 country maintained a bank account with a local banking institution. The company did not have named shareholders, but rather utilised bearer shares and the beneficial owner of the company is a foreign national. During a due diligence exercise it was

discovered that he had been arrested in a foreign country in a special operation for various offences including forming a criminal organisation, embezzlement and money laundering.

The FRA made a request to the local service provider seeking information on the bank account of the foreign company which revealed that the account had significant activity and currently contained approximately US\$1 million. The information was disclosed to the FIU of the subject's home country for intelligence purposes.

Indicators

- Adverse due diligence information
- Use of bearer shares
- Business originating from a non schedule 3 country

How Money Laundering Works



4. Fraud and Corruption

A foreign national resident in the Cayman Islands set up a personal account with a local bank with the stated purpose of receiving his salary. He worked for a local company in a position which made him responsible for procuring goods and services as well as hiring.

Without the knowledge of his employer he formed a local company of which he was the beneficial owner. The individual began using his inside knowledge of bids to illegally allow his personal company to win contracts from his employer. Analysis of his personal bank account subsequently showed that he had been receiving numerous weekly third party deposits from individuals who were employees he was responsible for hiring for his employer. The FRA made an onward disclosure to the local police who initiated an investigation. The person was convicted of fraud and receiving kickbacks from employees in return for being hired.

Indicators:

- Bank account activity contrary to the stated purpose of the account.
- Setting up a company to hide true beneficial ownership
- Fraud/receiving kickbacks

5. Securities Fraud

The managing director of an overseas company issued a prospectus which contained misleading and false information within the company's annual report. He overstated the company's group revenue by 275%. This information was provided to that country's securities commission as part of the company's proposal for listing on their stock exchange.



The managing director established a revocable trust and underlying company in the Cayman Islands. He then opened an overseas bank account in the name of the Cayman company, for which he held a Power of Attorney allowing him to trade in the account. This structure was devised to hide the managing director's trading in the overseas company and to hide assets derived from his illegal activities. The Cayman company held over US\$1 million in this bank account.

The FRA made an onward disclosure to the FIU of the foreign national's home country. The foreign national has been charged in his home country with three counts of providing misleading and false information.

Indicators:

- Use of corporate structures to conceal possible proceeds of crime
- Alleged securities fraud due to overstatement of revenue

6. Money Laundering / Terrorist Financing through a Trust Company

Mr. A established a Cayman Islands revocable trust, with himself as settlor and a local trust company service provider acting as trustee. Mr. A also arranged for the incorporation of a Cayman Islands company known as company B, with the local trust company also acting as the registered office.

The SAR maker in its capacity as trustee and registered office, became aware of allegations relating to Mr. A and his involvement in an oil and gas contract scam which also involved members of a foreign government. Mr. A was the representative of the oil and gas company and was allegedly involved in a kickback scandal in which his company was awarded a contract by the foreign government.

According to media reports Mr. A was the money source who provided several officials from the foreign government with the means to buy the support of other government officials in order for them to participate in the scam.

Over a two year period the SAR maker reported that the trust and underlying company had received numerous transfers of funds and property from what was now deemed to be questionable sources, which in turn heightened its suspicions and prompted the SAR to the FRA.

An analysis of the trust accounts undertaken by the FRA revealed outgoing funds to individuals named in numerous media reports who allegedly took part in the kickback scandal.

The FRA in turn did a request for information to the FIU of the foreign jurisdiction to enquire if there were any investigations or criminal proceeding underway into Mr. A, to which the FIU responded saying that Mr. A was being investigated for money laundering and corruption of government officials.

The FRA was also able to construct a timeline of events which revealed that funds and other assets were being added to the trust around the same time the alleged criminal activity of Mr. A and others was reported to have occurred.

As a result of our analysis and information from the FIU of the foreign jurisdiction a disclosure was made to the FIU based on the premise that a Cayman trust and company was being used to house the proceeds of Mr. A's criminal activity.

The information disclosed by the FRA was useful to the overseas FIU and the investigations of the foreign jurisdiction, and the matters before the courts are still pending.

Indicators

- Adverse due diligence information
- Corruption
- Use of corporate structures to conceal possible proceeds of crime

These examples are based on actual information we have received and sanitised to protect the identities of the individuals or entities concerned.

Further typologies can be found at www.Egmontgroup.org or www.FATF-GAFI.org or www.cfatf-gafic.org.

Disseminating Intelligence to Law Enforcement*Disposition of Cases*

Once information is analysed and the Director has reviewed and agreed with the findings, a determination is made regarding onward disclosure. Intelligence is disclosed to the following designated agencies where the required statutory threshold has been met:

- local law enforcement agencies where there is *prima facie* evidence of criminal conduct or where the FRA has cause to suspect criminal conduct.
- the Cayman Islands Monetary Authority where the information is in relation to criminal conduct.
- overseas financial intelligence units where the information is in relation to criminal conduct. Overseas disclosures require the consent of the Attorney General who considers the purpose of the disclosure, third party interests, and may impose any other conditions of disclosure.

The statutory purposes of onward disclosure are to:

- report the possible commission of an offence;
- initiate a criminal investigation;
- assist with any investigation or criminal proceeding; or
- facilitate the effective regulation of the financial services industry.

Intelligence which does not meet the threshold for disclosure is retained in our confidential database pending any future developments.

The table below shows the disposition of cases received during the year 2009/2010.

Disposition	No of Cases		
	2009-10	2008-09	2007-08
Cases Analysed Requiring No Further Immediate Action	187	118	98
Cases Analysed that resulted in a Disclosure	69	109	70
Reply to Overseas Request	60	57	45
Reply to Local Request	1	0	0
In Progress (as at 01 July 2010)	41	36	34
Total Cases	358	320	247

At the end of the year, 11% of the cases were still in progress when compared to the prior year's 11% and 14% the year before that.

Chart 3.7 below illustrates the disposition of cases for 2009/2010 that resulted in a disclosure.

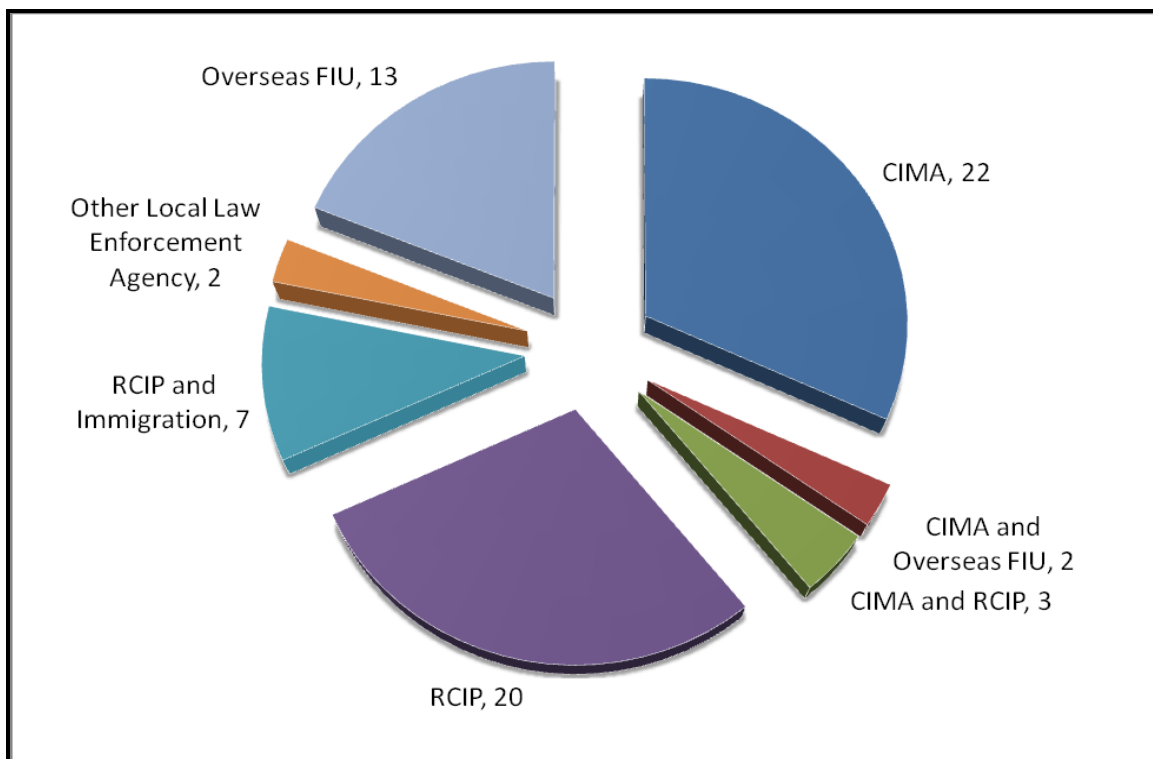


Chart 3.7: Disposition of cases analysed that resulted in an onward disclosure

Onward Disclosures Overseas

The 75 cases that were replies to requests for information and disclosures to overseas FIUs and other law enforcement agencies went to 28 different countries, down from 36 the year before. While the number of countries involved slightly decreased it still highlights the international nature of our AML/CFT regime.

The greatest number of disclosures was to the United States of America at 22 followed by the UK with 7 and Brazil and Russian Federation each with 5. Chart 3.8 below shows a detailed breakdown.

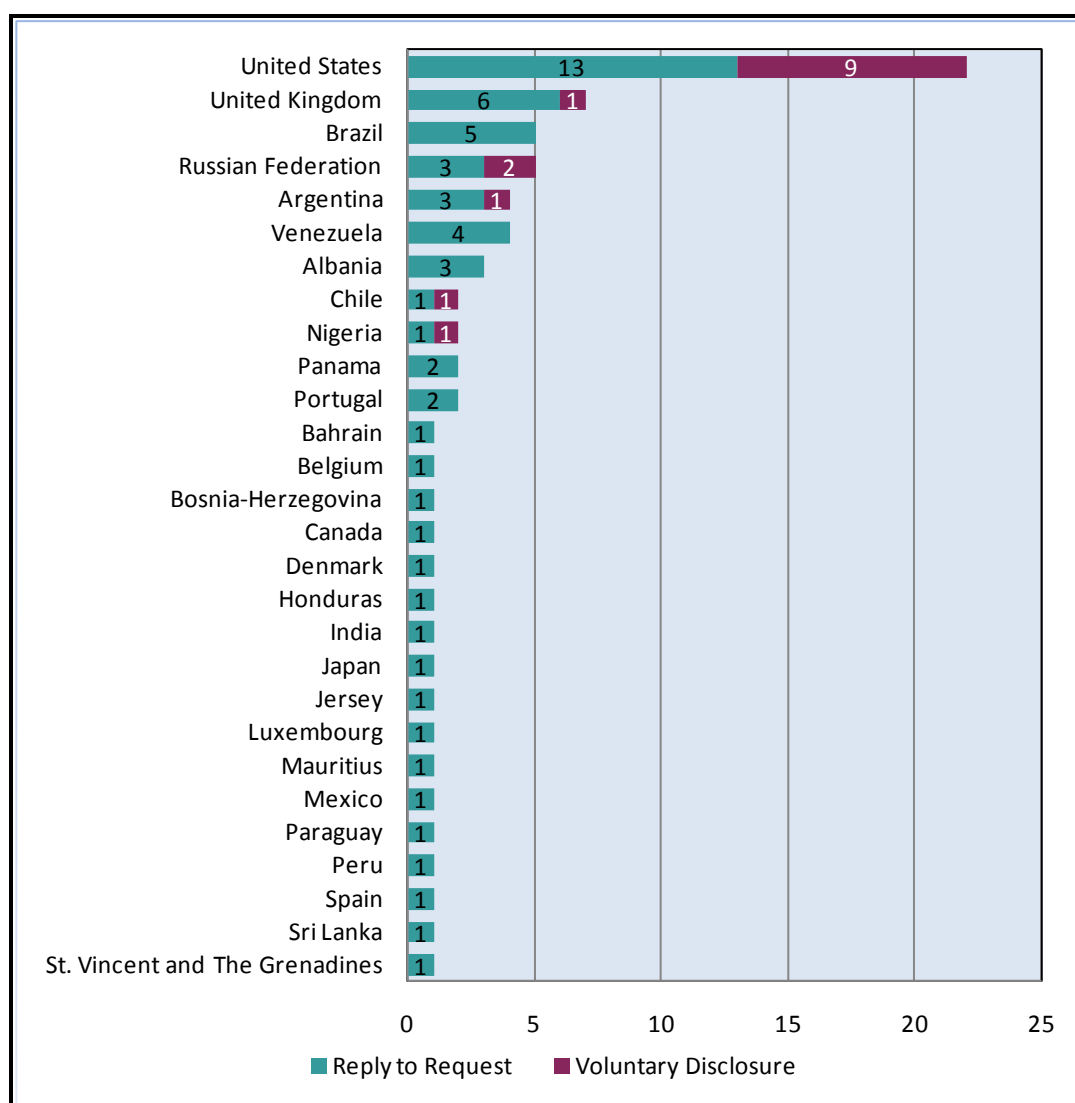


Chart 3.8: Overseas disclosures and replies to request for information

Disposition of Cases Carried Over from 2008/2009

Chart 3.9 illustrates the disposition of the 36 cases carried over from 2008/2009. Of these 36 cases:

- 19 required no further immediate action. The information is stored in our database and monitored for future developments.
- 9 cases were disclosed to the appropriate local or overseas agency.
- 6 cases were replies to requests for information from overseas FIUs.
- At the end of the year there were 2 cases still in progress.

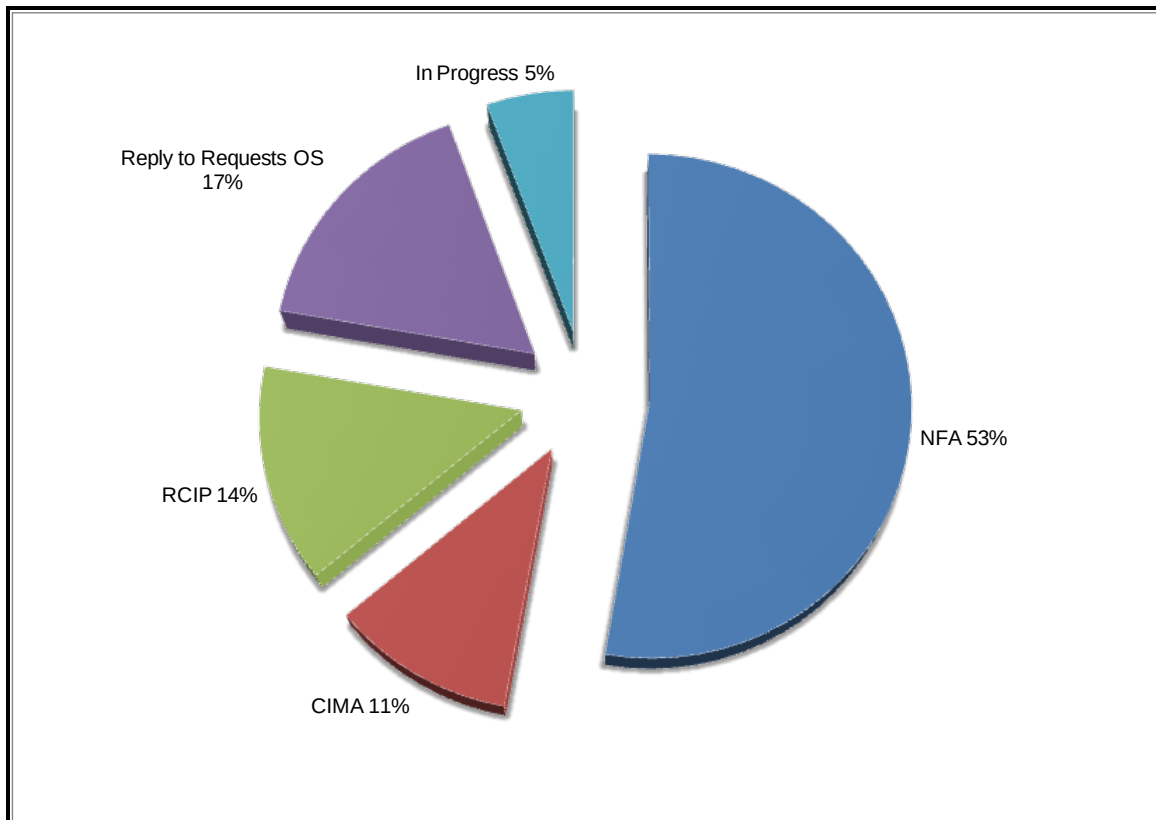


Chart 3.9: Disposition of cases carried over from 2008/2009

IV. Strategic Priorities: 2010/2011 Building on Strengths

The Year Ahead

The FRA will continue to focus on enhancing its cooperation with the financial and non-financial businesses with a view to improving the compliance and reporting with AML/CFT requirements. In addition, we will continue to maximise efficiency and effectiveness in our internal and external outputs in the interest of safeguarding the integrity and security of the financial industry. Our five main priorities are:

1. PROACTIVE OUTREACH PROGRAMME

Priorities: To continue proactive outreach to domestic service providers.

The AML/CFT regimes make an important contribution to the financial, economic and reputational well being of the Cayman Islands. To this end our staff will continue to offer presentations on request from the industry associations, groups, financial services providers on the role and responsibilities of the FRA.

2. CAPACITY BUILDING

Priorities: Ensure the continued development of staff to improve skills.

The continued development of our staff is critical to the nature of our operation and we will continue to provide opportunities for training, attendance at conferences, seminars as well as meetings which are geared towards enhancing our expertise whilst remaining current with local and global AML/CFT issues even in the face of limited financial resources.

During the course of the year, we provided to a member of the BVI FIU a two week training programme within our unit to learn our analytical process. We continue to offer training opportunities to our regional partners whom may wish to benefit from our expertise.

3. ENHANCE REPORTING OF INFORMATION

Priorities: Maintain a cooperative interface that fosters improved quantity and quality of reporting.

The quality of our analysis hinges directly on the quality of the financial information we receive. We are committed to developing and maintaining cooperative working relationships with all reporting entities by encouraging an open line of communication to discuss matters of mutual interest with a view to enhancing the quality of information we receive.

A web site has been developed to provide public access to information on the work of the FRA whilst providing links to legislations related to AML/CFT and other useful and related information.

4. PRODUCE INSIGHTFUL AND RELEVANT INTELLIGENCE REPORTS

Priorities: Produce and deliver increasingly effective, technology driven financial intelligence analysis and case disclosures.

Ensure that the staff provides the highest level of insight and value to the intelligence products which will be useful to law enforcement and intelligence agencies both locally and overseas.

5. APPROPRIATE DISSEMINATION OF INTELLIGENCE

Priorities: Ensure that disclosures to law enforcement agencies both locally and overseas are made in a timely manner and are consistent with our statutory obligations.

We shall continue our efforts to obtain feedback from our disclosures both locally and overseas so as to measure the effectiveness of our contribution to the fight against money laundering and terrorism financing as such result could be beneficial to our reporting entities.

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