



# FINANCIAL REPORTING AUTHORITY (CAYFIN)

CAYMAN ISLANDS GOVERNMENT

## PORTFOLIO OF LEGAL AFFAIRS

**CONFIDENTIAL**  
**FINANCIAL REPORTING AUTHORITY**

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Cayman Islands  
(345) 945-6267  
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**SUSPICIOUS ACTIVITY REPORT**

*Note: This form should preferably be typed, using arial 12 point font.*

Date of this Report: June 28, 2013  
Date of Original Report (if applicable):  
FRA Case No. (if known):

**1. REPORTING ENTITY DETAILS:**

Name of Reporting Entity: \_\_\_\_\_  
Reference of Reporting Entity: \_\_\_\_\_

Address of Reporting Entity: \_\_\_\_\_  
80e Shedden Road, Elizabethan Square, George Town, Grand Cayman KY1-1001  
Name of Money Laundering Reporting Officer: Honest Trustworthy

*Note: The name of an individual who is authorized to discuss the contents of this report must be provided.*

Phone number: 345-949-6267  
Fax number: 345-949-6268

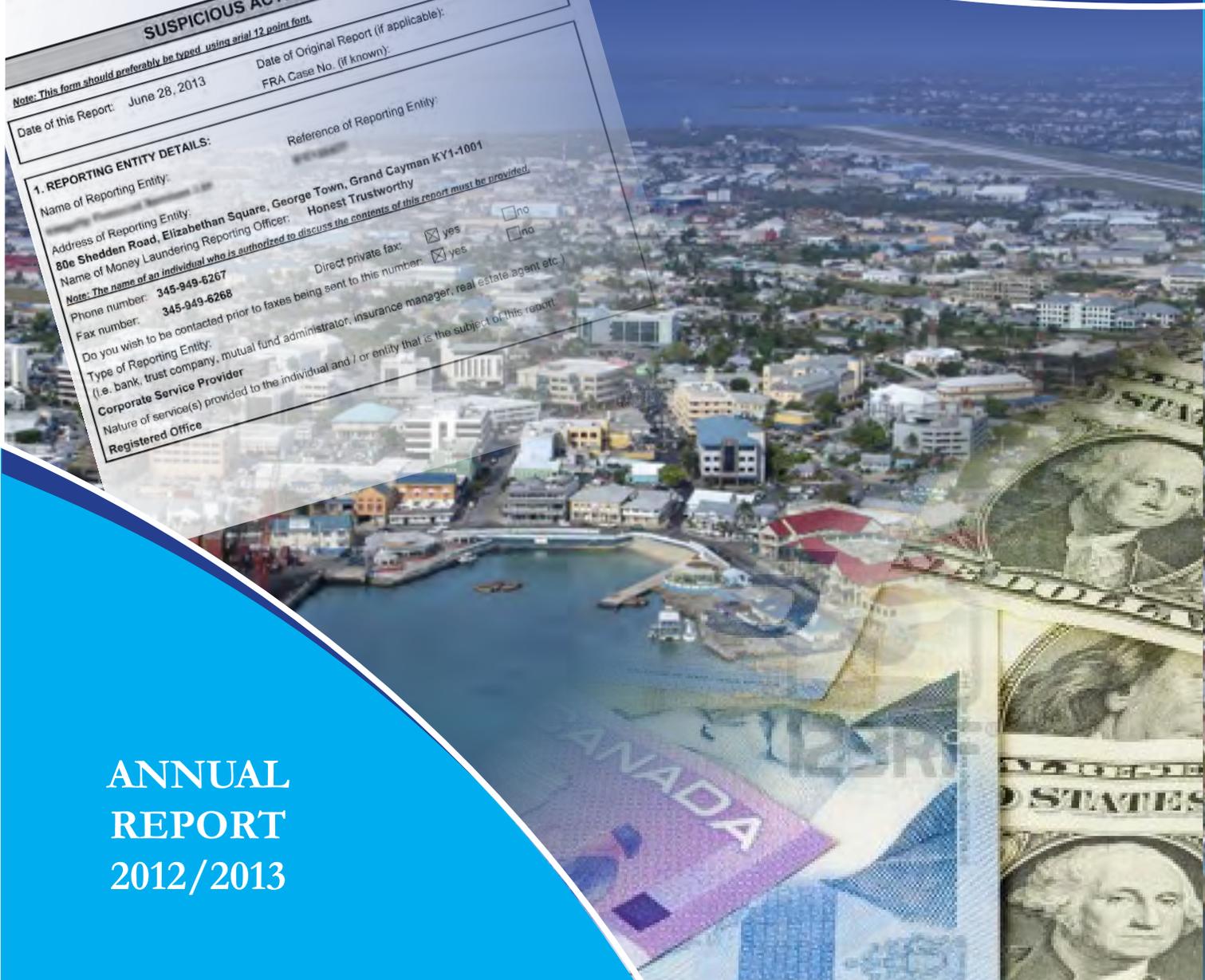
Do you wish to be contacted prior to faxes being sent to this number:  yes  no

Direct private fax:  yes  no

Type of Reporting Entity:  
(i.e. bank, trust company, mutual fund administrator, insurance manager, real estate agent etc.)  
**Corporate Service Provider**

Nature of service(s) provided to the individual and / or entity that is the subject of this report:  
**Registered Office**

ANNUAL  
REPORT  
2012/2013





## TABLE OF CONTENTS

Message from the Director .....	2
I. Legal Framework .....	4
II. The Financial Reporting Authority .....	6
Role and Function .....	7
Organisational Structure and Management .....	8
Relationships .....	10
II. Performance Reporting .....	13
Receiving Information - Suspicious Activity Reports (SARs).....	13
Analysing Information .....	19
Disseminating Intelligence to Law Enforcement .....	24
The Year in Review.....	28
III. Scenarios that Would Trigger Filing of a Suspicious Activity Report (Typologies) .....	31
IV. Strategic Priorities: 2013/2014 Building on Strengths .....	37
The Year Ahead .....	37



## MESSAGE FROM THE DIRECTOR

The Financial Reporting Authority (FRA) is the Cayman Islands' financial intelligence unit and is known internationally as CAYFIN by our EGMONT counterparts. As part of the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime in the Cayman Islands, our activities are governed under the proceeds of Crime Law, 2008 (PCL). Our mandate under the law is carried out in partnership with the other competent authorities, as well as the private sector, in creating an environment hostile to those who are desirous of using this jurisdiction for criminal purposes.

This year marks the tenth reporting period for the FRA. 2012/2013 has seen a slight decrease in the number of suspicious activity reports (SARs) when compared over the previous year; however, we do not see this as indicative of a declining trend in the number of reports in the years to come. It is, nonetheless, gratifying to see that the vigilance of the reporting entities has not waned, given that the reported activities are increasingly complex and require more expert attention.

Our success can only be achieved by maintaining a harmonious relationship and effective collaboration with those who are obligated to report suspicious activities. Consequently, we engaged in outreach programs with a number of our reporting entities which are geared towards better understanding of our different and important roles as well as information on how we can complement each other.

Of the 392 cases received, 219 were completed whilst 173 are still in progress at various stages. There were 129 voluntary disclosures recorded during the year, most of which were disclosed to the Royal Cayman Islands Police Service (RCIPS), our overseas counterparts and the Cayman Islands Monetary Authority (CIMA), respectively. This represented a slight decrease over the previous year, but the growing complexity of the reports continues to require increasing levels of our analytical skills.

Our activities, therefore, involved interactions with a wide cross section of Cayman's business community and more than 74 countries around the world. This brings into sharp focus the importance and usefulness of our membership in the EGMONT Group through which we share and request information with our partners in that grouping. The sharing of intelligence with our counterparts is central to our mandate, and our membership in EGMONT Group continues to serve us well.

It is therefore evident that there has been a tremendous amount of commitment and dedication by our staff. The workload is becoming burdensome and the size of the staff can no longer continue to cope with the growing number of reports received each year. In this regard, we have had to prioritise our analysis whereby reports viewed by the Director on initial assessment to necessitate disclosure to law enforcement agencies are usually expedited.

Emphasis during the coming year will continue to be placed on training courses, which will enhance the capacity of our staff to respond to the increased sophistication of those engaged in money laundering, terrorist financing and other associated criminal activities.

The new Financial Action Task Force (FATF) 40 Recommendations will necessitate a complete review and overhaul of the Cayman Islands' AML/CFT regime, and we are looking forward to participate in that process fully in preparation for the next Caribbean Financial Action task Force (CFATF) mutual evaluation of this jurisdiction.

We are once again grateful to our partners in the reporting entities, law enforcement and regulatory agencies for their unwavering support during the year. We also wish to thank the Anti-Money Laundering Steering Group for its guidance and co-operation throughout the year. The work of the staff has also been invaluable and must be highly commended, particularly in light of the fact that we are operating with one unfilled senior position due to budgetary constraints. I have every confidence that our dedicated staff will continue to work hard in confronting the challenges in the year ahead.

This annual report provides an overview of our operations for 2012/2013 which I trust will give useful insights to its readers about the work we do.

Lindsey Cacho  
Director

## I. LEGAL FRAMEWORK

The Cayman Islands fully understands and accepts that operating a financial services centre involves serious obligations. The Cayman Islands Government enforces a strong anti-money laundering and countering terrorist financing regime through the following pieces of legislation:

### 1. The Proceeds of Crime Law

The Proceeds of Crime Law (2008) consolidated in one place the major anti-money laundering provisions, whereas before these were in three separate pieces of legislation.

It also governs the operations of the FRA.

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

In addition the Law widened the definition of criminal conduct, which is now defined as any offence committed in the Cayman Islands or

any action that would have constituted an offence if committed in the Cayman Islands. As the definition was previously limited to indictable offences, the change simplified the task of assessing whether a particular set of facts falls within the PCL, and further satisfies the 'dual criminality' provisions, which mandate that the FRA may only respond to a request for information from another FIU if the offence being investigated in the overseas jurisdiction is also a crime in the Cayman Islands.

### 2. Misuse of Drugs Law (2010 Revision)

The Misuse of Drugs Law (MDL) has over the years been amended to give effect to the Cayman Islands' international obligations, and particularly to United Nations (UN) Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The MDL contains measures to deal with drug trafficking and the laundering of the proceeds from such activity. The law empowers the authorities to seize and confiscate drug trafficking money, and laundered property and assets. The Criminal Justice (International Cooperation) Law (2010 Revision) – originally enacted as the Misuse of Drugs (International Cooperation) Law - provides for cooperation with other countries in relation to collecting evidence, serving documents and immobilising criminally obtained assets in relation to all qualifying criminal proceedings and investigations.

3. Terrorism Law (2011 Revision)

The Terrorism Law is a comprehensive piece of antiterrorism legislation that, inter alia, implements the UN Convention on the Suppression of Financing of Terrorism.

This legislation requires CIMA to issue directions, where it reasonably believes that certain activities in these areas are being carried on that pose a significant risk to the interests of the Islands or the United Kingdom (U.K.).

4. Anti Corruption Law, 2008

Brought into effect on 1 January 2010, the Law initiates the establishment of the Anti-Corruption Commission and also criminalises acts of corruption, bribery and embezzlement of funds.

The Anti-Corruption Law (2008) seeks to give effect to the UN Convention against Corruption and the Organisation for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. International cooperation and asset recovery are important components of this legislation including measures to prevent and detect transfers of illegally acquired assets, the recovery of property and return of assets.

6. Money Laundering Regulations (2010 Revision)

The Regulations supplement the Law and are mandatory. The Law defined "relevant financial business" and requires those engaged in "relevant financial business" activities, (referred to as financial service providers ("FSPs")) and professional intermediaries, to comply with specific administrative requirements aimed at preventing or detecting money laundering.

Among these administrative requirements is the appointment of compliance officers at management level.

5. Proliferation Financing (Prohibition) Law 2010

Proliferation Financing (Prohibition) Law 2010 conferred powers on the Cayman Islands Monetary Authority to take action against persons and activities that may be related to terrorist financing, money laundering or the development of weapons of mass destruction.

## II. THE FINANCIAL REPORTING AUTHORITY

### Background

The Financial Reporting Authority (FRA), known to counterparts worldwide by its computer call sign "CAYFIN", is the financial intelligence unit (FIU) of the Cayman Islands. As such it is the national agency responsible for receiving, requesting, analysing and disseminating financial information disclosures 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 (FIU) in the early 1980s, operating within police headquarters. In the year 2000, it underwent a name change to become 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 was undertaken by the office of the Attorney General. Throughout this period, the role of the unit was to serve as the receiver, analyst and investigator of suspicious activity reports (SARs), in addition to gathering evidence to support prosecutions.

While this remains the FIU model in some countries, the Cayman Islands, along with other jurisdictions, quickly discovered that there were advantages to be gained from separating the functions of intelligence and evidence gathering. Briefly these are:

- 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 should automatically end up in a police database.

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

Striking a balance between the various styles of FIUs, the Cayman Islands' authorities moved towards an administrative-type unit. Subsequently the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL) created the Financial Reporting Authority (FRA), the name by which the unit is presently known. The law which came into force on 12th January, 2004, mandated that the FRA become a full-fledged civilian body, and that its function change from being an investigative to an analytical type FIU. Accordingly its mandate was restricted to the receipt and analysis of financial information coupled with the ability to disseminate this intelligence to agencies, where authorised to do so by the PCCL. Its existence and independence were

further enshrined in the Proceeds of Crime Law 2008 (PCL) which repealed and replaced the PCCL and came into force on 30<sup>th</sup> September 2008. The investigative mandate continues to be undertaken exclusively by the Royal Cayman Islands Police Service (RCIPS) in relation to cases with local concerns.

Our primary objective is 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.

### **ROLE AND FUNCTION**

The FRA's main objective is to serve the Cayman Islands by participating in the international effort to deter and counter money-laundering and the financing of terrorism.

As noted above, the Authority's role is to receive, analyse, (and as far as permitted, request) and disseminate disclosures of financial information, concerning the proceeds of criminal conduct, suspected proceeds of criminal conduct, money laundering, suspected money laundering, or the financing of terrorism which is derived from any criminal offense committed in these islands.

The FRA also serves as the contact point for international exchanges of financial intelligence within the provisions of the PCL.

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.



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

## **ORGANISATIONAL STRUCTURE AND MANAGEMENT**

The FRA is a part of the Cayman Islands Government Portfolio of Legal Affairs. The head of this portfolio is the Hon. Attorney General. However, it also reports to the Anti-Money Laundering Steering Group (AMLSG), a body created by the same statute as the FRA. Chaired by the Hon. Attorney General, the group consists of the Hon. Financial Secretary (Deputy Chairman), the Commissioner of Police, the Collector of Customs, the Managing Director of CIMA and the Solicitor General. Since the creation of a separate prosecuting authority independent of the Attorney General, the Director of Public

Prosecutions is invited to attend meetings, as is the Director of the FRA.

The Anti-Money Laundering Steering Group has responsibility for oversight of the anti-money laundering policy of the Government and 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 believes that a healthy and well managed organisation sustains performance. In particular, it maintains strong focus on the effective management of human, financial and technical resources.

The FRA staff consists of a Director, a Legal Advisor, an Accountant, two Financial Analysts, an Administrative Manager and a Law Enforcement Liaison Officer, all having suitable qualifications and experience necessary to perform their work.

It is expected that all staff abide by the highest standards of integrity and professionalism. In particular, the FRA places great stress on the high level of confidentiality demanded by its role, as well as the financial industry with whom it interacts. It is the FRA's belief that staff should have the appropriate skills to carry out their duties, and thus provide specialized training suited to individual responsibilities, in addition to continuing education to ensure that staff remains up-to-date with industry and regulatory developments crucial to the effective functioning of the authority.

Throughout the year, staff attended 13 days of conferences and seminars, including, the 20<sup>th</sup> Egmont Plenary, the 18<sup>th</sup> Annual Association of Certified Anti-Money Laundering Specialists (ACAMS) International Anti-Money Laundering Conference and the Annual Offshore Alert Financial Due Diligence Conference.

FRA Staff also participated in and gained valuable experience from the 11 days spent

representing the FRA at the 36<sup>th</sup> CFATF Plenary, the 20<sup>th</sup> Annual Egmont Plenary and Heads of FIU Meeting, as well as in presentations made to industry associations and reporting entities.

#### PROTECTING CONFIDENTIALITY OF INFORMATION

The PCL provides the framework for the protection of information obtained by the FRA. Furthermore a layered approach to security has been adopted for the FRA's office and systems. Protecting financial information received from reporting entities is a critical function of the authority. Computer security measures include advanced firewalls to prevent unauthorised access to our database. In addition staff are aware of their responsibilities to protect information, and severe penalties exist, under the Law, for the unauthorised disclosure of data in our possession and control.

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

## 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 it receives 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.

Recognising 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, the FRA meets with money laundering reporting officers (MLROs) to share matters of mutual interest.

### The Egmont Group

The Egmont Group is an international, officially recognised body through the adoption of the Egmont Charter in the May 2007 Plenary held in Bermuda and the establishment of its permanent Secretariat in Toronto, Canada. Its membership now comprises 131 countries. It sets standards for membership as well as expanding and systematising 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. The FRA will continue to participate in the Egmont Working Groups and 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 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 counterpart giving effect to the global sharing of information.

There were no new MOUs signed within the year, the number of MOUs signed and exchanged remain the same. These include those from Australia, Canada, Chile, Guatemala, Honduras, Indonesia, Mauritius, Nigeria, Panama, Thailand and the United States. There are at present 3 more MOUs under negotiation.

### The Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF) is an organisation of 30 states of the Caribbean basin that have agreed to implement common countermeasures to address the problem of 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 implementation of and compliance with recommendations to prevent and control money laundering, as well as 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 fulfills the obligations of membership. The MEP is based on the Forty Recommendations (2003) and the Nine Special Recommendations on Terrorist Financing (2001) of the Financial Action Task Force (FATF). 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 (MOU). 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.

#### The New 40 Recommendations

Following the conclusion of the third round of mutual evaluations of its members, the FATF has reviewed and updated the FATF Recommendations, in close co-operation with the FATF-Style Regional Bodies (which includes the CFATF) and the observer organisations. In March 2012, the FATF released its International Standards on

Combating Money Laundering and the Financing of Terrorism & Proliferation - the New FATF Recommendations (approved February 2012).

The New FATF Recommendations ("the Recommendations") have been revised to strengthen global safeguards and further protect the integrity of the financial system by providing governments with stronger tools to take action against financial crime.

The Recommendations introduced the use of the Risk Based Approach in Recommendation no. 1, stating that "countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified".

Recommendation no. 7 reads "countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing"

Other noteworthy revisions are the inclusion of tax crimes as a predicate offense to money laundering; and improved transparency to make it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements. There are also now stronger requirements when dealing with politically exposed persons (PEPs); and more effective international cooperation including exchange of information

between relevant authorities, conduct of joint investigations, and the tracing, freezing and confiscation of illegal assets; and better operational tools and a wider range of techniques and powers, both for the financial intelligence units, and for law enforcement agencies to investigate and prosecute money laundering and terrorist financing as well as associated crimes.

determining whether a person has complied with the Money Laundering Regulations.

A FATF press release says, "the FATF will begin a new round of evaluations on the Recommendations of its member countries in 2014 and will focus much more intensively on assessing how effectively countries have implemented the standards."

#### 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

## II. PERFORMANCE REPORTING

### 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. It also receives requests for information from local law enforcement agencies and overseas financial intelligence. SARs and requests for information are collectively referred to as cases in this report.

Upon receipt, each case is examined to ensure that the report contains all the required data. The case is then assigned a reference number and data from the case is entered into the FRA SAR database.

For year 2012-2013 the FRA received SARs from 93 different reporting entities. This number excludes the 35 overseas financial intelligence units that requested information from the FRA. This shows a decrease in the number of reporting entities when compared against the fiscal year 2011-12, when the FRA had 113 different reporting entities, and requests for information from 34 overseas financial intelligence units.

The 93 reporting entities are classified in this report according to the licence that they hold with CIMA, if they are a regulated/registered entity. Reporting entities that are not regulated are classified according to the type of service that they provide. Regulated/registered entities are shown as part of the following sectors

governed by CIMA: banking and related services, fiduciary services, insurance services, investment funds and fund administrators and securities investment businesses. Reporting entities that are not regulated are held under the term Designated Non-Financial Businesses and Professions (DNFBPs).

The number of cases filed under each of those sectors and the DNFBPs are as follows:

Sector	No of Cases
Banking and related businesses	169
Fiduciary services	61
Insurance services	5
Investment funds and fund administrators	37
Securities investment businesses	17
DNFBPs	27
Request for Information - Overseas	62
Request for Information - Domestic	9
Cayman Islands Monetary Authority	5
<b>Total No of Cases</b>	<b>392</b>

DNFBPs consists of law practitioners, accounting professionals, real estate brokers, dealers of high value items, private individuals and legal entities.

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.

Chart 2.1 below shows the total number of cases by financial year since 2010/2011. In 2012/2013 the FRA received 392 new cases, which is 3% less than those received in 2011/2012. While this presents the first decline in the number of cases in the last 3 years, it however shows the second consecutive year where cases have been more than 390 in number. The FRA views the growing number of SARs as indicative of the vigilance of the reporting entities against money laundering and terrorist financing.

On average the FRA has received approximately 30 cases a month for the past three years. For 2012/2013 the months of November and December in 2012 and the

month of May in 2013 saw the largest number of cases received for the year (see Chart 2.2 on the next page). The record for the largest number of cases received in one month is still 51 in March 2011.

The decline of 14 cases presents a negligible decline in the number of cases received during the year. However the corresponding decline in the number of subjects was more prominent at 16%. The total number of subjects decreased from 870 in 2011/2012 to 727 in 2012/2013 (see Chart 2.3 on the next page). A factor that contributed to the decline in the number of subjects were the requests for information from overseas FIUs with multiple subjects in 2011/2012 that were related to the civil uprisings in the Middle East. The FRA did not receive any similar requests for information in 2012/13.

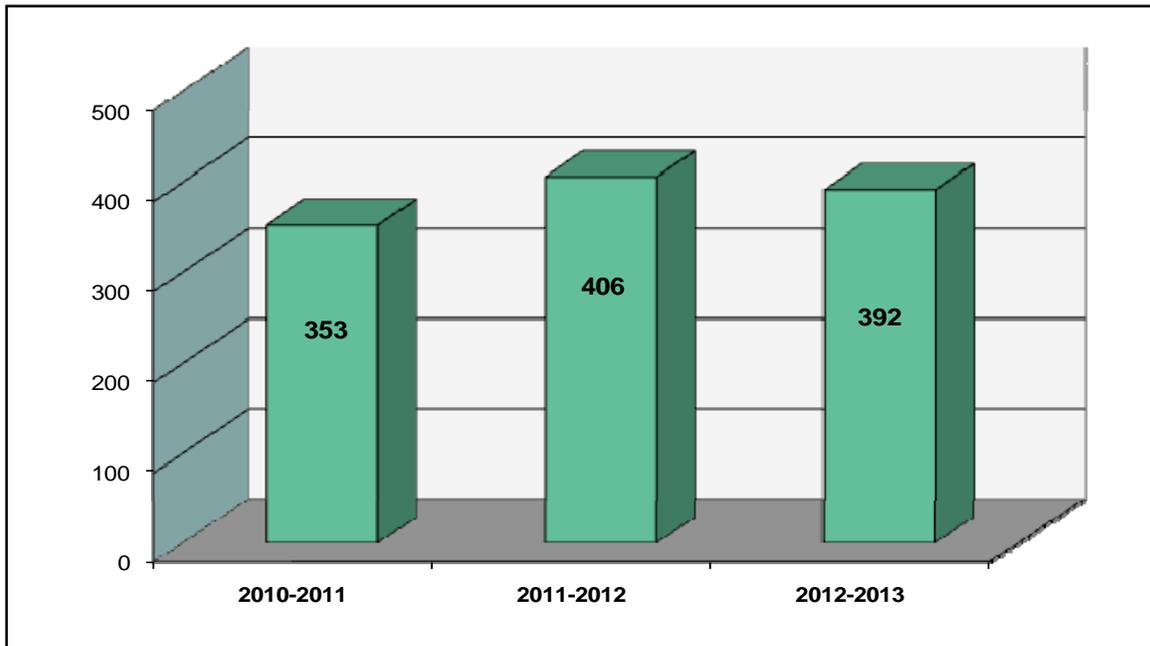


Chart 2.1: Total cases by financial year

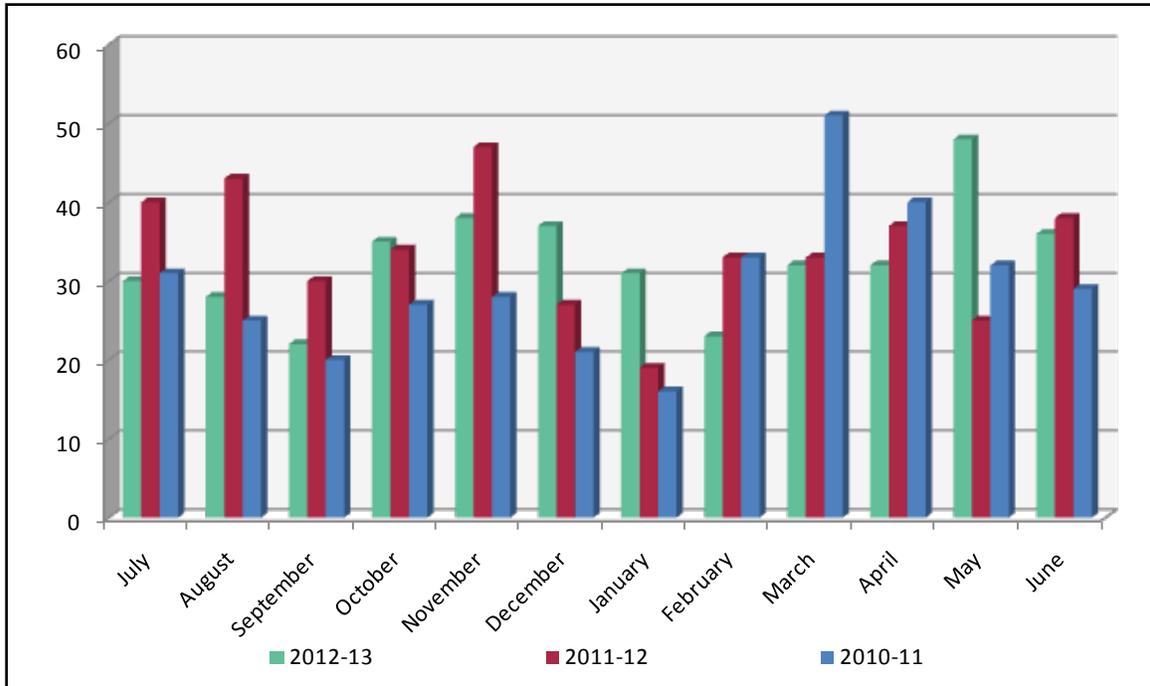


Chart 2.2: Comparison of monthly cases received

Chart 2.3 below shows the total number of legal entities and natural persons identified as subjects of suspicious activity reports for the past 3 reporting periods.

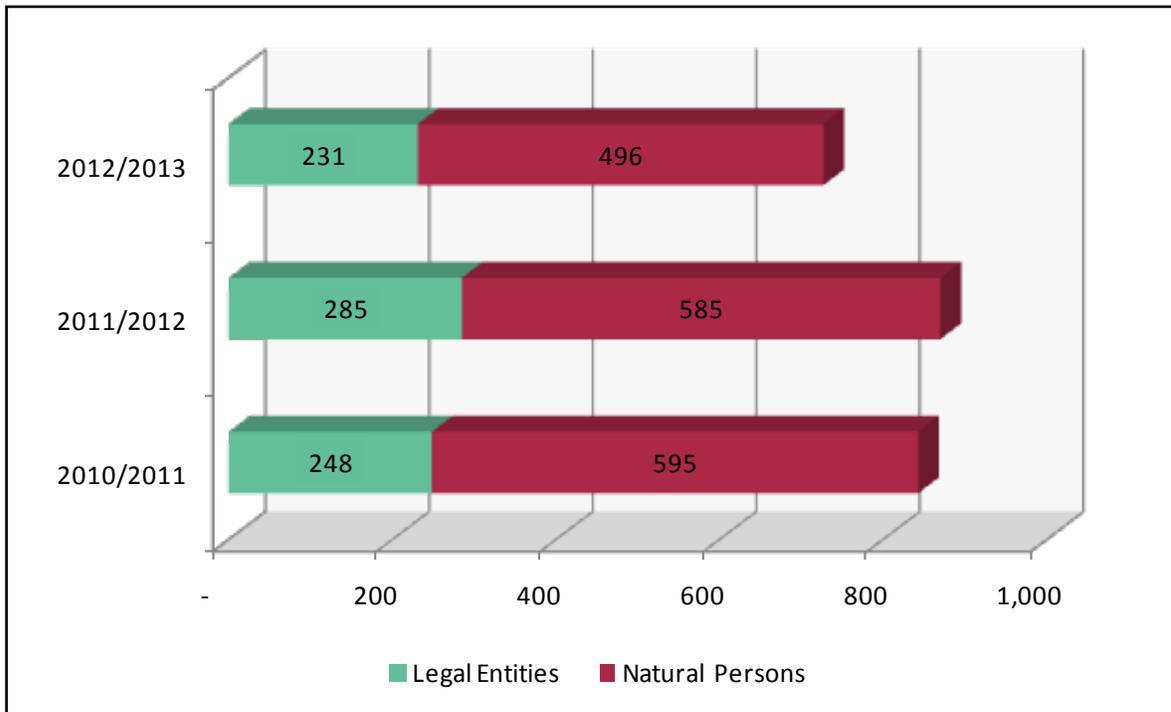


Chart 2.3: Number of subjects by financial year

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 on the succeeding page lists 74 different countries for the subjects of the reports. 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 request and has enhanced the analysis of information reported and the development of intelligence.

The Cayman Islands is the nationality or domicile of the greatest number of subjects with 166, comprised of 119 legal entities and 47 natural persons. The United States is the second largest, at 106 subjects comprised of 21 legal entities and 85 natural persons. Canada, Jamaica, Peru, the United Kingdom and Brazil make up the rest of the countries which had more than 20 subjects. Together these seven countries account for 413 subjects (57%) of total received.

The category "Others" in the chart 2.4 is comprised of one subject each from Anguilla, Austria, Barbados, Belize, Bosnia, Bulgaria, Colombia, Djibouti, Equatorial Guinea, Guatemala, Iran, Kuwait, Luxembourg, Mauritius, Mexico, Netherlands, Nicaragua, Nigeria, Pakistan, Portugal, South Africa, St. Lucia, Sweden, Thailand, as well as Trinidad and Tobago.

In some cases, particularly those relating to declined business and scam related activities, the nationality or domicile of the subject are not known. Declined business describes situations where a company may decline a customer's business. Such cases are reported to the FRA where there appears to be a rationale for doing so. There are also instances when a requesting overseas FIU does not have complete identification for the subject of their request, and these are accordingly represented as "unknowns" in the chart on the succeeding page.

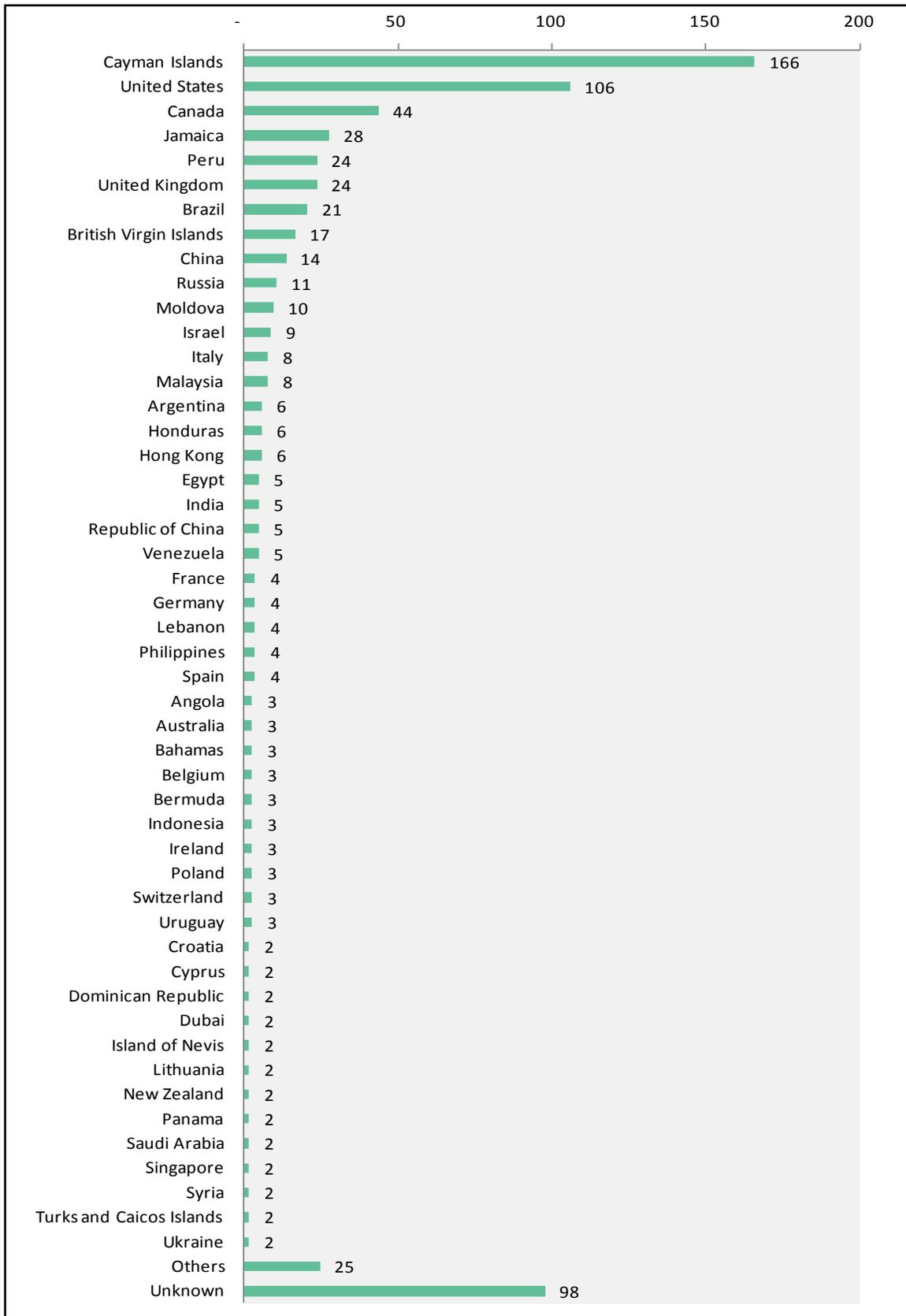


Chart 2.4: Countries of all subjects in SARs reported in 2012/2013

Sources of Cases

Chart 2.5 below shows a detailed breakdown of the sources of cases. CIMA regulated financial service providers, which include banks, trust companies, mutual fund administrators and money service providers, provided a substantial portion of the cases that the FRA has received. The five largest contributors were:

- Banks - 145
- Overseas Financial Intelligence Units - 62
- Trust Companies – 45
- Mutual Fund Administrators –34
- Money Service Providers - 20

Banks continue to be the largest source of SARs received. The number of banks making reports decreased to 21 in 2012/2013 from 27 in 2011/2012.

Banks and money service providers which belong to “CIMA’s banking and related businesses sector”, account for 42% of the total number of cases filed in 2012-2013.

The Trust Company category means a company carrying on trust business; this includes those acting as trustee, executor or administrator of a trust. Cases from trust companies account for 11% of the total received.

The largest number of SARs we received from DNFBPs came from Law Practitioners. Other DNFBPs filing SARs included: accounting professionals, real estate brokers and dealers of high value items.

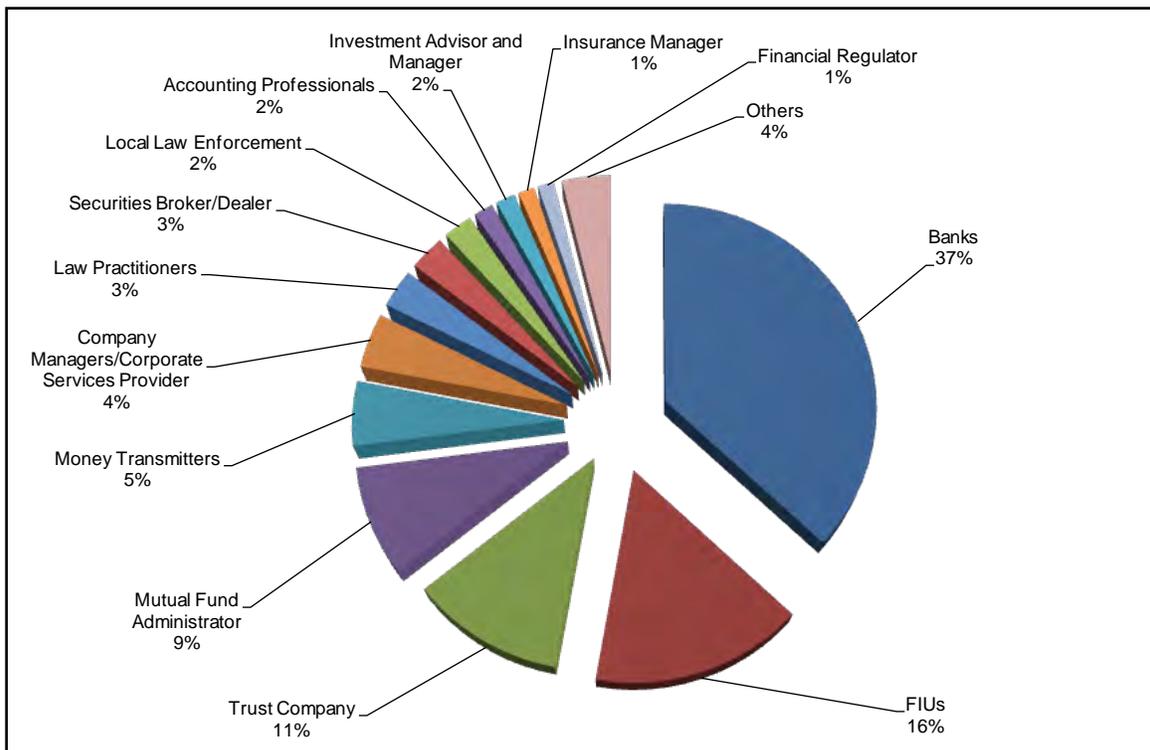


Chart 2.5: Sources of Cases

**ANALYSING INFORMATION**

The FRA conducts in-depth research and analysis by matching data in the SAR to existing records and intelligence information in the SAR database, as well as to information contained in other external databases. An important element of our analysis is the ability, provided for by the PCL, to request information from any person, in order to clarify or amplify information disclosed in a report, 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 the FRA's ability to request and exchange information with Egmont Group members, with whom it communicates through the Egmont Secure Web.

Consistent with the provisions of the Law, the FRA made 53 requests locally to clarify or

amplify information received in 47 cases. Forty two requests for information to overseas FIUs were made via the Egmont Secure Web, arising from 29 cases. These requests have greatly assisted the FRA's determination to make disclosures to local law enforcement as well as to overseas FIUs. Chart 2.6 below shows the number of requests made locally and overseas for the past 3 years.

Upon completion of the analysis, an assessment is made to determine if the analysis substantiates the suspicion of money-laundering or financing of terrorism or a predicate offence leading to money laundering. If, in the opinion of the Director, this statutory threshold is crossed, the FRA discloses the information to the appropriate law enforcement agency or overseas FIU.

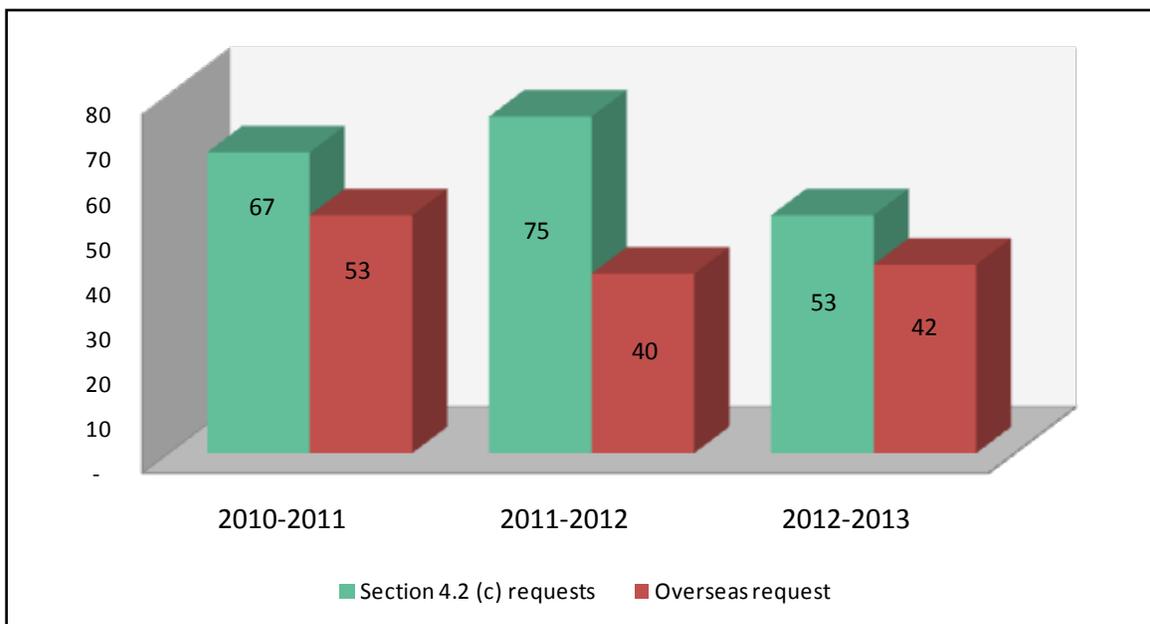


Chart 2.6: Number of request made locally and overseas

SARs Trend Analysis

The five most common reasons for filing reports are:

- suspicious financial activity - 178
- fraud - 104
- money laundering - 25
- Declined Business - 20
- corruption - 19

Included in the 104 reports citing fraud as the reason for suspicion are: fraud, securities fraud and internet fraud. Included in the category fraud are: debt collection scams, advance fee fraud schemes and counterfeit cheque schemes. Table 2.7 below provides a detailed breakdown of the reasons for suspicion.

Reason	%
Suspicious Activity	45%
Fraud	27%
Money Laundering	6%
Declined Business	5%
Corruption	5%
Tax Evasion	2%
Regulatory Matters	2%
Theft	2%
Drug Trafficking	2%
Others	4%
<b>Total</b>	<b>100%</b>

Table 2.7: Reasons for suspicion

Suspicious Financial Activity

A large number of reports filed with the FRA are due to 'suspicious activity'; which may mean that an account is showing activity that is out of line with the customer's declared level of expected income or expectations for the

type of account when used for legitimate business. In other words such activity lacks an apparent lawful economic basis to support it. The FRA recognises that this is a perfectly valid reason to submit a SAR and that it is no part of the function of a reporting entity to carry out exhaustive investigations. After detailed analysis by the FRA, many of these reports inevitably fail to meet the statutory threshold and no link to criminal activity is established. Nevertheless, these reports form a vital part of intelligence gathering and help build a clearer picture of the money-laundering threat to the Islands and help safeguard against criminal elements.

Some of these suspicious activities when matched to information in the FRA's SAR database have led to the identification of predicate offences for money laundering.

Consistent with prior years, the majority of cases received in 2012/2013 were due to suspicious activity. Among those considered suspicious were cases involving: the structuring of deposits and/or withdrawals, as well as electronic wire transfers, apparently intended to remain under the radar of the reporting thresholds of monitoring bodies. As noted above reports may also be made where 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.

#### Fraud

Fraud is the second most common reason for the filing of suspicious activity reports. Included in this category are securities fraud, internet fraud and other financial scams. During 2012/2013 the FRA continued to receive reports regarding counterfeit cheques being used in a growing number of debt collection scams and overpayment scams.

#### Internet Fraud

An area of concern for law enforcement is Internet fraud. 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 FRA has received reports about fraudulent overpayment schemes that target Island based online consumer-to-consumer shopping websites. In this scheme, the buyer claims to be from overseas and creates an excuse to make payment in the form of a cashier's cheque, money order or personal cheque for more than the selling price. They then instruct the seller to wire them back the extra money. The cheque the buyer sends bounces and the seller is then liable for the total amount of the cheque.

#### Phishing

The FRA has also received reports about phishing. Phishing is a way of attempting to acquire sensitive information such as usernames, passwords and banking and credit card details by pretending to be a trustworthy entity in an electronic communication. Persons will be sent a link in an email allegedly from a banking institution, for example, claiming the need to update records. The recipient will be asked to click on the link and verify their login and passwords. When that is done the link records this information.

The perpetrator then uses the recorded information to log into the customer's actual account and may wire funds overseas, or to another customer or business, claiming payment for a product or service. Many times there may be an over-payment and the recipient may be asked to remit the difference by wire or money-transfer. After the process is completed, the customer then discovers that they have been unwittingly implicated in a money-laundering scheme and may be liable for repayment of the funds.

The FRA has also seen instances where previous communications via fax or email by customers to their bankers have been intercepted by fraudsters. These previous communications would then be used by the perpetrators to issue fraudulent instructions to wire money from the account.

In prior years the FRA saw a variation of this scam where the perpetrators attempt to get credit card details from their victims posing as representatives from software companies

making offers to remotely repair the computer system errors.

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.

#### Debt Collection Scams

The perpetrators of debt collection scams claim to be international clients with large commercial accounts that need to be placed with a local agency for collection. They sometimes make it appear that the commercial accounts are due from local companies. Shortly after the account is placed for collection, the customer mails what appears to be a cashier's cheque for the debt owed. However, the cashier's cheque is invalid. The perpetrator's goal is to extract the amount listed on the false cashier's cheque from the collection agency's trust account before the cheque is discovered as fraudulent.

#### Overpayment Scams

The FRA has identified a variation of the overpayment scam that uses counterfeit cheques. The perpetrators of the scam have recently targeted Cayman Islands based real estate brokers by posing as individuals wishing to acquire property in the Cayman Islands. The perpetrators will claim to send a wire transfer to the broker's bank account as payment for the property but instead mails a counterfeit cheque of a larger amount directly

to the broker's bank. The perpetrator would then request the broker to wire them back the extra money.

Real estate brokers that do not review details of deposits into their bank accounts may fail to notice that the debit into their account was made via cheque deposit and not by wire transfer; thus making them susceptible to this fraud scheme.

#### Fraudulent Promissory Notes and Bonds

The FRA has seen several fraudulent schemes that involve what are claimed to be securities issued or backed by a Foreign Government. These scams have been directed towards banks and companies which seek payment on the fraudulent securities. The fraudulent securities can be used as collateral to open lines of credit before the perpetrators take the money and disappear.

#### Corruption

Intensifying enforcement efforts against bribery and corruption in many countries have led to heightened monitoring and scrutiny of transactions that are linked to politically exposed individuals and to companies doing business with foreign governments. Further, global benchmarks in anti-bribery legislation like the UK's Bribery Act 2010 and the US Foreign Corrupt Practices Act (FCPA) made the bribery of foreign public officials an offense that extends beyond company employees to include the behavior of third parties acting on behalf of a company.

In the Cayman Islands, the Anti Corruption Law 2008 appears to be bringing the focus of bribery and corruption firmly into the minds of those operating businesses in the Cayman Islands which has led to more SAR filings that identify corruption as the primary suspicion. Most of these cases are predicated on unusual transactions of companies whose beneficial owners are politically exposed persons, or related to politically exposed persons.

## DISSEMINATING INTELLIGENCE TO LAW ENFORCEMENT

### *Disposition of Cases*

The dissemination or disclosure of financial intelligence, resulting from its analysis, is a key function of the FRA. Once information is analysed and the Director has reviewed and agreed with the findings, a determination is made regarding onward disclosure. Financial 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.
- CIMA 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.

Cases which do not meet the threshold for disclosure are retained in the FRA's confidential SAR database pending future developments. As new cases are received and matched with data in the FRA's SARs database, prior cases may be re-evaluated with the receipt of new information.

In 2012/2013, the FRA received 392 new cases as compared to 406 cases received in 2011/2012 and 353 cases in 2010/2011. The following table shows the disposition of the cases as at 30 June for the past 3 years:

Disposition	No of Cases		
	2012-13	2011-12	2010-11
Cases Analysed Requiring No Further Immediate Action	77	154	136
Cases Analysed that resulted in a Disclosure	97	110	94
Reply to Overseas Request	42	57	59
Reply to Local Request	3	0	0
In Progress (as at 01 July)	173	85	64
<b>Total Cases</b>	<b>392</b>	<b>406</b>	<b>353</b>

Table 2.8 Disposition of Cases received

The FRA completed the review of 219 cases, out of 392 received during the year, leaving 173 in progress at year-end. The FRA also completed 63 of 85 cases carried over from 2011/2012, of which 22 are still in progress. Of the 219 new cases analysed, only 77 were deemed to require no further immediate action, which was a significant decrease of 50% of the cases from 2011/2012.

As at June 30, 2013 we had commenced initial analysis of 52 of 173 cases in progress. Those 52 cases were in varying stages of completion, with some waiting on clarifying/amplifying information, while others are in need of further research.

There was a noticeable decrease in the total number of cases that resulted in a voluntary disclosure, from 110 in 2011/2012, to 97 in 2012/2013. Those 97 SARs resulted in 129 voluntary disclosures which were made to the RCIPS (58), overseas FIUs (28) CIMA (30) and other local law enforcement agencies (13). The 28 voluntary disclosures to overseas FIUs present a 17% decrease from the 34 made in 2011/2012. Disclosures to overseas FIUs require the consent of the Attorney General. The number of disclosures exceeded the number of actual cases, as some disclosures were made to more than one local law enforcement agency and/or overseas FIU.

Recipient	No of Disclosures		
	12/13	11/12	10/11
RCIPS	58	64	59
CIMA	30	29	25
Other LLEA	13	4	6
Overseas FIUs	28	34	25
<b>Total</b>	<b>129</b>	<b>131</b>	<b>115</b>

Table 2.9: Number of disclosures made

*Onward Disclosures Overseas*

The FRA discloses financial intelligence to its overseas counterparts, either as a result of a suspicion formed through its own analysis, or in response to a request for information received from overseas. The 70 disclosures of financial intelligence shared with our overseas counterparts, are comprised of 42 replies to requests for information and 28 voluntary disclosures to overseas FIUs and other law enforcement agencies as seen in chart 2.8 on the next page. Those disclosures went to 33 different countries, down from 35 the year before.

The greatest number of disclosures was to the United States of America at 20, followed by the United Kingdom with 6, Hong Kong with 4, Canada, Egypt and Singapore each with 3. Chart 2.11 on the next page shows a detailed breakdown.

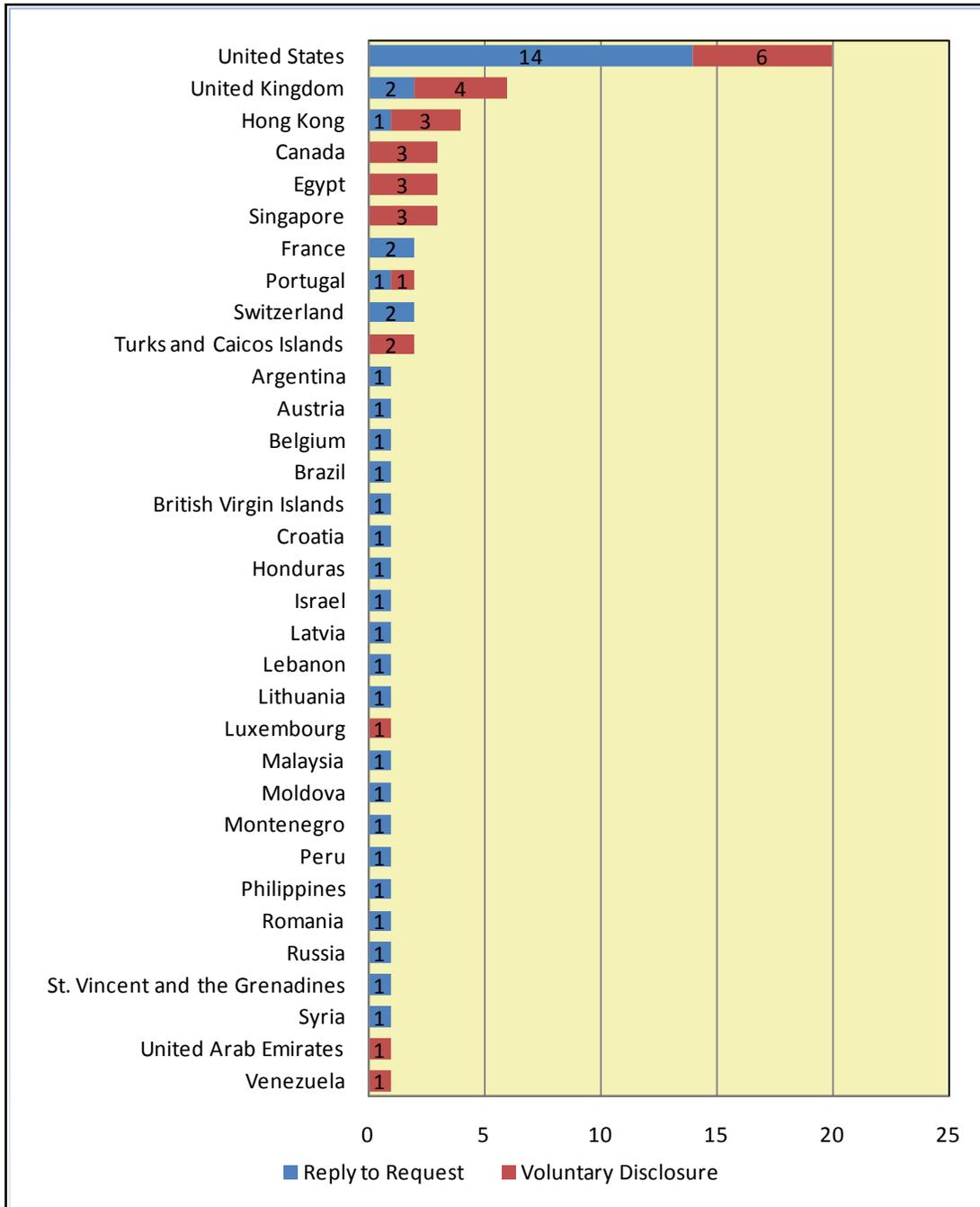


Chart 2.11: Overseas disclosures and replies to request for information

Disposition of Cases Carried Over from  
2011/2012

Chart 2.12 illustrates the disposition of the 85 cases carried over from 2011/2012. Of these cases:

- 18 required no further immediate action. The information is stored in our database and monitored for future developments.
- 28 cases were disclosed to the appropriate local or overseas agency.
- 17 cases were replies to requests for information from overseas FIUs.
- At the end of the year there were 22 cases still in progress.

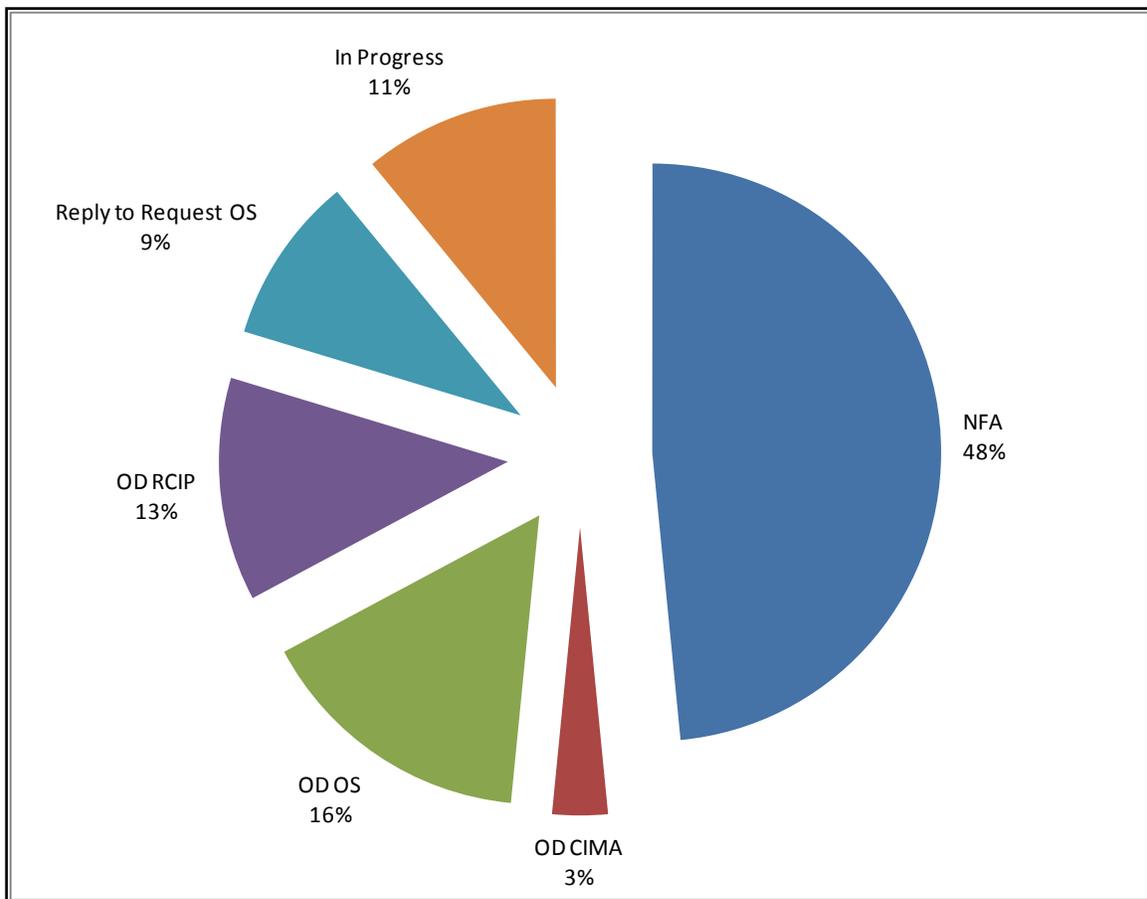


Chart 2.12: Disposition of cases carried over from 2011/2012

## THE YEAR IN REVIEW

Detailed disposition of the cases as at 30 June for the past 3 years:

The following table shows the detailed disposition of the cases as at 30 June for the past three years:

Disposition	No of Cases		
	2012-13	2011-12	2010-11
Cases Analysed Requiring No Further Immediate Action	77	154	136
Disclosed to CIMA only	21	18	15
Disclosed to CIMA and Overseas FIU	0	5	2
Disclosed to CIMA and RCIP	7	5	7
Disclosed to CIMA, RCIP and Immigration	1		
Disclosed to CIMA, RCIP and Overseas FIU	1	1	1
Disclosed to RCIP only	36	50	42
Disclosed to RCIP and HM Immigration	7	2	5
Disclosed to RCIP and HM Customs	1	2	0
Disclosed to RCIP, HM Immigration, HM Customs and Overseas FIU	1		
Disclosed to RCIP and Overseas FIU	4	4	3
Disclosed to HM Immigration only	2	0	1
Disclosed to Overseas FIU only	16	23	18
Reply to Request Local	3	0	0
Reply to Overseas Request	42	57	59
In Progress*	173	85	64
<b>Total Cases</b>	<b>392</b>	<b>406</b>	<b>353</b>

\* - includes 20 overseas requests for information as at 30 June 2013

### Significant Events

#### *The 20th Egmont Group Plenary*

The FRA, through its Director and a member of staff, participated in the 20th Egmont Group Plenary, held at the St Petersburg, Russia which was attended by over 300 participants who were representatives of FIUs from 109 jurisdictions and 17 international organizations. The Egmont Plenary, held

annually, brings together the Egmont member FIUs and observer organizations for training and in-depth discussions to further the development of the international FIU network.

Eight training sessions were held throughout the plenary focused on topics of contemporary operational concern to FIUs: regulatory issues – the real estate sector; legal systems and the role of FIU information; the AML/CFT risks and

preventative measures involved in new financial products; the results of the joint Egmont / World Bank study on FIU Power to Postpone; FIU cooperation with law enforcement and anti-corruption agencies; methods for providing feedback and communicating with law enforcement entities; the FIU Information System Maturity Model (FISMM); and operational and analytical methods.

The FRA continues to monitor developments on the issue of international cooperation and the use of “diagonal cooperation” between non-counterpart authorities. Diagonal cooperation refers to exchanges of information with non-counterparts, such as between an FIU and a Securities Regulator (non-FIU) in another country. Last year, the Heads of FIUs confirmed that the key operational concerns with respect to diagonal cooperation include ensuring control over the information held by the FIU and confidentiality.

In recent years the Egmont Group has also placed increased emphasis on the fight against corruption. The 19th Egmont Group Plenary included further sessions devoted to combating corruption and asset recovery. The Egmont Group of FIUs reaffirmed a commitment, including as specifically foreseen in the UN Conference Against Corruption, to fulfill their important role as part of each government’s anti-corruption work, in tracing and identifying possible illicit proceeds, and in facilitating and strengthening the international

exchange of information in furtherance of anti-corruption efforts

#### *The 36th CFATF Plenary*

A member of staff attended the week-long 36th Caribbean Financial Action Task Force (CFATF) Plenary in British Virgin Islands from November 11 – 16, 2012. The FRA has been monitoring the CFATF’s development of a framework for the proposed accreditation program for analysts and financial investigators in the Caribbean region. This project which will strengthen regional capacity to take the profit out of crime is being undertaken by the CFATF in partnership with the European Union, CARIFORUM, CARICOM IMPACS and United Kingdom Eastern Caribbean Financial Investigations Advisory Team.

#### *Results of Disclosures of Information*

During the year 2012-13, the FRA was made aware of the arrest of individuals who were the subject of cases that were subsequently disclosed to local law enforcement.

In 2012-13 several subjects of disclosures to local law enforcement agencies had been charged and convicted of criminal offences. The very nature of a criminal investigation can sometimes mean that detailed feedback is not always forthcoming and this is an area that the FRA is working hard to improve.

The FRA continues to make regular disclosures regarding suspicions of scams and

fraudulent schemes to allow law enforcement to build a database of those schemes.

*Industry Presentations*

Throughout the year the FRA made presentations in three industry associations organized events, as well as three separate presentations to local financial service provider at their request, on the work of the FRA, the duties and potential difficulties with the PCL and the minutiae of SAR forms and filling them out. With the positive feedback received, the FRA intends to continue these presentations to better inform the industry in the future.

### III. SCENARIOS THAT WOULD TRIGGER FILING OF A SUSPICIOUS ACTIVITY REPORT (TYPOLOGIES)

The following is a compilation of sanitised cases of successes and learning moments in the fight against money laundering and terrorist financing. These cases have been identified by the primary typology involved, though some of them may involve more than one typology. They are being published for learning purposes and as a feedback-tool for our partners in the fight against money laundering and terrorist financing. The FRA believes that the greater the quality, accuracy, and timeliness of the suspicious activity reports, the greater the value they provide to the detection, deterrence and disruption of money laundering and terrorist activity.

#### 1. Unlicensed Money Service Business

A retired foreign national maintained personal and commercial accounts with a local bank. It was noted by the bank that various individuals from the retiree's home country were making frequent deposits to his personal accounts.

An in depth review revealed that the foreign national on a regular basis would transfer these deposits to his commercial account. Subsequently, these funds are then wired out to the foreign national's home country. It was also noted that the current commercial accounts were not designed to facilitate the type of business transactions conducted through the accounts.

The information was subsequently disclosed to the Royal Cayman Islands Police and the Cayman Islands Monetary Authority. The foreign national was later prosecuted for operating an unlicensed money service business.

Indicators:

- Frequent deposits by various individuals
- Bank account activity contrary to stated purpose of the account

#### 2. 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 the Cayman Islands 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

### 3. Unsound Business Practices

A foreign national operating a regulated financial business was the subject of a suspicious activity report from several banking institutions. First, a local bank reported a concern after the foreign national issued a personal cheque as a repayment to his client after overpaying himself for management fees. The bank was concerned about the appropriateness of his access to those funds.

Subsequently, SARs were received from two other banks that have declined the business of the foreign national. The bank disclosed that the business was declined due to concerns about the economic viability of the proposed transactions and that the practices could be abused to create a mechanism to avoid money laundering controls. The reports of declined business from the two banks

highlighted that the subject was actively seeking to further his business on this island.

As the financial business of the foreign national was subject to regulation, the information was disclosed to the regulatory authority. Subsequent information about offenses committed by the foreign national surfaced and he was prosecuted for misappropriation of client assets.

Indicators:

- Issues about the economic viability of the proposed transactions
- Unsound business practices that are subject to abuse

### 4. Suspicious Activity

A foreign national arrived in the Cayman Islands for a holiday. He arrived with three cheques for substantial amounts in his possession. Two 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. The 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. 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

#### 5. Overseas Remittances

A Cayman Islands Money Service Business (MSB) filed a SAR on several individuals that they noticed to be receiving remittances from individuals overseas. The details of the SAR showed that the recipients of the funds failed to provide sufficient information about its source and that the recipients appear to use the MSB's service only for this particular transaction. A review by the MSB disclosed that the funds originated from the same overseas jurisdictions and the recipients of the remittances were all of the same nationality.

Subsequent SARs from another MSB, disclosed that their global network representative has identified that one of the MSB's locations was used by fraudsters to collect money from a fraud scheme. The victims of the fraud scheme were all based overseas.

Analysis of those SARs identified similarities in the frequency and amounts of the remittances, as well as the lack of sufficient information about the sources of those funds. The nationalities of the recipient of those funds and

the location originating the remittances provided further information linking all the SARs. The FRA's research also identified that warnings against scams perpetuated by individuals of the same nationality as those of the recipient of the funds has been issued for citizens of the country where the remittances originated.

As the later SARs identified a predicate offense, all information was disclosed for intelligence purposes only to the RCIP and the FRA's overseas counterpart in the in the country originating the remittances.

Indicators:

- Insufficient information about source of the funds
- The recipient of the funds used the MSB's service solely for a particular transaction
- Information linking subjects to suspected fraud schemes

#### 6. Money Laundering

A foreign company from a non-schedule 3 country (schedule 3 countries are those with equivalent AML/CFT strategies) 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 was 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 a substantial amount of funds. 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

7. 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 individual employees that he

had been 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.

Indicators:

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

8. 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 Islands company for which he held the 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 Islands 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

#### 9. 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 requested information from the FIU of the foreign jurisdiction to enquire if there were any investigations or criminal proceedings 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 also constructed 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 Islands 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 investigations within the foreign jurisdiction. Matters before the courts there 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](http://www.Egmontgroup.org) or [www.FATF-GAFI.org](http://www.FATF-GAFI.org) or [www.cfatf-gafic.org](http://www.cfatf-gafic.org).

## IV. STRATEGIC PRIORITIES: 2013/2014 BUILDING ON STRENGTHS

### THE YEAR AHEAD

The FRA will continue to focus on enhancing its cooperation with 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. ENHANCE REPORTING OF INFORMATION**

Priorities: Ensure that our financial intelligence disclosures align with the needs of law enforcement agencies and effectively identify emerging money laundering and terrorist financing trends.

To ensure that our financial intelligence disclosures provide valuable resource to law enforcement agencies, we are committed to developing and maintaining constant communication within the bounds allowed by our mandate. We aim to establish regular meetings which would serve as avenue to receive feedback on financial intelligence disclosures we have made.

In addition to providing tactical intelligence, we will strive to develop strategic financial intelligence by applying analytical techniques to data that we have, as well as to other information sources to identify emerging

trends and patterns that are used by criminal and terrorist organisations in money laundering and terrorist financing operations.

We believe that strategic intelligence will enable us and our law enforcement partners and regulatory agencies to direct our resources to deal with new types of threats. This will enable us in a wider context, to contribute to the development of appropriate legislative and regulatory amendments where warranted.

#### **2. STAFF TRAINING AND DEVELOPMENT OPPORTUNITIES**

Priorities: Continue development of staff to ensure that they are abreast with local and global AML/CFT issues.

The 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 ability to identify emerging trends and patterns that are used by criminal and terrorist organisations in money laundering and terrorist financing operations.

By ensuring that staff have familiarity with developing issues in AML/CFT we will be able to provide the highest level of insight and value to the intelligence products that we provide to law enforcement and intelligence agencies both locally and overseas.

### 3. APPROPRIATE DISSEMINATION OF FINANCIAL 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.

The protection of confidential information entrusted to us is of vital importance in the conduct of our operations. Thus we ensure that all information in our possession and control is disclosed only in accordance with the Proceeds of Crime Law. Whilst bound by such conditions we strive to make disclosures in a timely manner so as not to dilute any benefit or insight that may be gained from such information.

We shall continue our efforts to obtain feedback from our disclosures, locally and overseas, so as to measure the effectiveness of our contribution in the fight against money-laundering and terrorism financing, as such a result would be of benefit to our reporting entities.

### 4. PROMOTE COOPERATIVE RELATIONSHIPS WITH REPORTING ENTITIES

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

The quality of our disclosures 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.

We understand that reporting entities would normally want feedback on reports that they have made, however the confidential nature of the SARs themselves and the similar confidential nature of any criminal investigations preclude us from providing detailed feedback.

Since 2008, we have maintained a website that is designed to provide public access to information on the work of the FRA, whilst providing links to legislation related to AML/CFT, and other useful and related information including additional trends and typologies at Egmont Group, FATF and CFATF websites.

### 5. READINESS FOR THE 4TH ROUND OF MUTUAL EVALUATION

Priorities: Ensure that the FRA's obligations for effective AML/CFT implementation in accordance with the FATF Recommendations are met.

We shall ensure that effective policies and procedures are implemented that address the FRA's statutory obligations for AML/CFT implementation and reporting, and meet the FATF Recommendation that will be covered in the upcoming mutual evaluation review.

### 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)

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