FINANCIAL REPORTING AUTHORITY (CAYFIN)

CAYMAN ISLANDS GOVERNMENT

PORTFOLIO OF LEGAL AFFAIRS



ANNUAL REPORT 2010/2011

TABLE OF CONTENTS

Message from the Director 2

I. Overview of the Authority 3

Introduction 3

Role and Function 5

Management and Organisational Structure 6

Relationships 8

II. Performance Reporting 11

The Year in Review 11

Operational Statistics 12

Disseminating Intelligence to Law Enforcement 22

III. Typologies 26

IV. Strategic Priorities: 2011/2012 Building on Strengths 30

MESSAGE FROM THE DIRECTOR

I am pleased to submit the Financial Reporting Authority's (FRA) report for the year ending 2010/2011. The report outlines the work of the FRA as it relates to the suspicious activity reports (SARs') received from the reporting entities as well as requests from our overseas counterparts.

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

The 2010/2011 year marks the eighth reporting period which has seen a slight decrease in SARs over the last year. In spite of the slight decrease of SARs received, we remain confident that the vigilance of the reporting entities is not waning given the trend of reports received following negative reports in international press against activities with connection to these islands.

Of the 353 cases received, 289 were completed whilst 64 are still in progress. There is a noticeable increase in the number of cases resulting in 94 voluntary disclosures made during the year as oppose to 69 the previous year. The most significant of these are 55 disclosures which were made to the local law enforcement agencies as well as 18 made to overseas Financial Intelligence Units (FIUs). We have observed that there is a growing level of sophistication in the type of SARs' received which has contributed to the increased workload of the analysts in meeting the many challenges we face.

Our activities therefore involved interactions with a cross section of Cayman's business community and more than 65 countries around the world. This brings into sharp focus the usefulness of our membership with EGMONT Group through which we share and request information with our partners in those countries. The sharing of intelligence with our counterparts is central to our mandate under the Proceeds of Crime Law 2008 (PCL). Our participation in the work of the EGMONT Group will continue as well as other international organizations.

We are once again grateful to, and wish to thank our partners in the reporting entities, law enforcement and regulatory agencies for their support during the year. We are also indeed grateful and thankful to the Anti-Money Laundering Steering Group for its guidance and co-operation throughout the year. I also wish to recognize and thank the staff of the FRA for the hard work, commitment and dedication they have each contributed to accomplish what we have achieved this year, even in the face of reduction in our staffing level. I have every confidence that our dedicated staff will continue to meet the challenges in the year ahead.

Lindsey Cacho
Director

I. OVERVIEW OF THE AUTHORITY

INTRODUCTION

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 automatically ends 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.

In striking the balance of selection between the various styles of FIUs, the Cayman Islands' authorities decided to move towards an administrative-type unit and 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 30th 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 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)

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.

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 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 require that international FIUs can only make requests for information in cases where the offence that they are investigating in their jurisdiction is also a crime in the jurisdiction that receives the request.

The Law also empowered the FRA under section 4 (2) (c) to seek further information from anyone to amplify or clarify information it receives. 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.

ROLE AND FUNCTION

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.

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.

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.



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

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 Honourable Attorney General. However, we also report to the Anti-Money Laundering Steering Group (AMLSG), a body created by the same statute as the FRA. Chaired by the Honourable Attorney General, the Group consists of the Honourable Financial Secretary (Deputy Chairman), the Commissioner of Police, the Collector of Customs, the Managing Director of the Cayman Islands Monetary Authority (CIMA) and the Solicitor General.

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, we maintain strong focus on the effective management of our human, financial and technical resources.

Our staff consists of a Director, a Legal Adviser, 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.

We expect all staff to abide by the highest standards of integrity and professionalism. In particular, we place great stress on the high level of confidentiality demanded by the FRA, as well as the financial industry with whom we interact. We also believe that staff should have the appropriate skills to carry out their duties, and provide specialized training suited to individual responsibilities, in addition to continuing education to ensure that staff remain up-to-date with industry and regulatory developments crucial to the effective functioning of the authority.

Throughout the year, staff attended 30.5 days of conferences and seminars, including the IMF/CFATF Mutual Evaluation Pre-Assessment Workshop, the 10th Annual Florida International Bankers Association (FIBA) Anti-Money Laundering Conference, the 15th Annual Association of Certified Anti-Money Laundering Specialists (ACAMS) International Anti-Money Laundering Conference, the Offshore Alert Financial Due Diligence Conference and the World Bank Tactical Analysis Training.

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

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 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.

We continue 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 money laundering reporting officers (MLROs) to share matters of mutual interest.

The Egmont Group

The Egmont Group is an officially international recognized 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 126 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 it's 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 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.

Although we have not signed any MOUs in the current year, to date 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 4 more MOUs pending, including one which has been concluded and is awaiting sign-off, while the others remain 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 fulfils the 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 (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.

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 areas. Since a satisfactory level of compliance with all core and key recommendations has been achieved, the Cayman Islands has been removed from the regular

follow-up process, and our focus henceforth is to prepare for the fourth round of mutual evaluation which is to commence in 2013.

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. PERFORMANCE REPORTING

THE YEAR IN REVIEW

In 2010/2011, the FRA received 353 new cases as compared to 358 cases received in 2009/2010 and 320 cases in 2008/2009. The following table shows the disposition of the cases as at 30 June for the past 3 years:

	No of Cases		
Disposition	2010-11	2009-10	2008-09
Cases Analysed Requiring No Further Immediate Action	136	187	118
Disclosed to CIMA only	15	22	17
Disclosed to CIMA and Overseas FIU	2	2	6
Disclosed to CIMA and RCIP	7	3	8
Disclosed to CIMA, RCIP and Overseas FIU	1	0	0
Disclosed to RCIP only	42	20	47
Disclosed to RCIP and Immigration	5	7	1
Disclosed to RCIP and Overseas FIU	3	0	7
Disclosed to HM Immigration only	1	1	1
Disclosed to HM Customs only	0	1	0
Disclosed to Overseas FIU only	18	13	22
Reply to Request Local	0	1	0
Reply to Overseas Request	59	60	57
In Progress*	64	41	36
Total Cases	353	358	320

* - includes 6 overseas requests for information

We completed reviews of 289 cases, out of 353 received during the year, leaving 64 in progress at year-end. We also completed 37 of 41 cases carried over from 2009/2010, of which 4 are still in progress. Of the 289 new cases analysed, 136 were deemed to require no further immediate action, which was a decrease of 51 cases from 2009/2010.

As at June 30, 2011 we had commenced initial analysis of 48 of 64 cases in progress. Those 48 cases were in varying stages of completion, with some waiting on clarifying/amplifying information, while others are in need of further research. The other 16 were received towards the end of the fiscal year and initial analysis on those cases had not yet commenced.

There was a noticeable increase in the total number of cases that resulted in a voluntary disclosure, from 69 in 2009/2010, to 94 in 2010/2011. The most significant increase came from disclosures made to the RCIPS which increased by 110% to 42 cases. Onward disclosures to overseas FIUs also increased by 38%. The level of voluntary disclosures made in 2010/2011, while significantly higher than those in 2009/2010, is slightly less than those made in 2008/2009.

OPERATIONAL STATISTICS

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. For year 2010-2011 we received reports from 116 different financial service providers and other reporting entities. This number excludes the 34 overseas financial intelligence units that requested information from us. This shows a small increase in the number of reporting entities when compared against fiscal year 2009-10, when we had 108 different financial service providers and other reporting entities, and requests for information from 29 overseas financial intelligence units.

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.

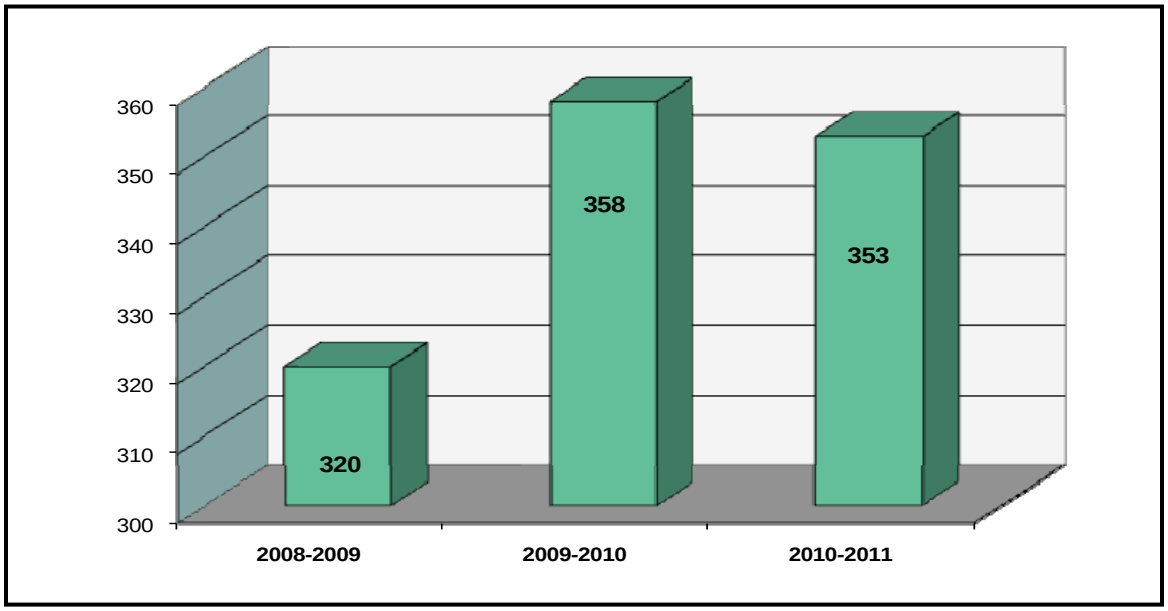


Chart 2.1: Total cases by financial year

Reporting Activity Review

Chart 2.1 on the previous page shows the total number of cases by financial year since 2008/2009. In 2010/2011 the FRA received 353 new cases, which is about the same as those received in 2009/2010. In spite of the decline, we are confident that such small decrease is still reflective 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. Yet the months of March and April 2011 saw the largest number of cases received for 2010/2011. The 51 cases received in March 2011 was the largest received in a month for the past five years.

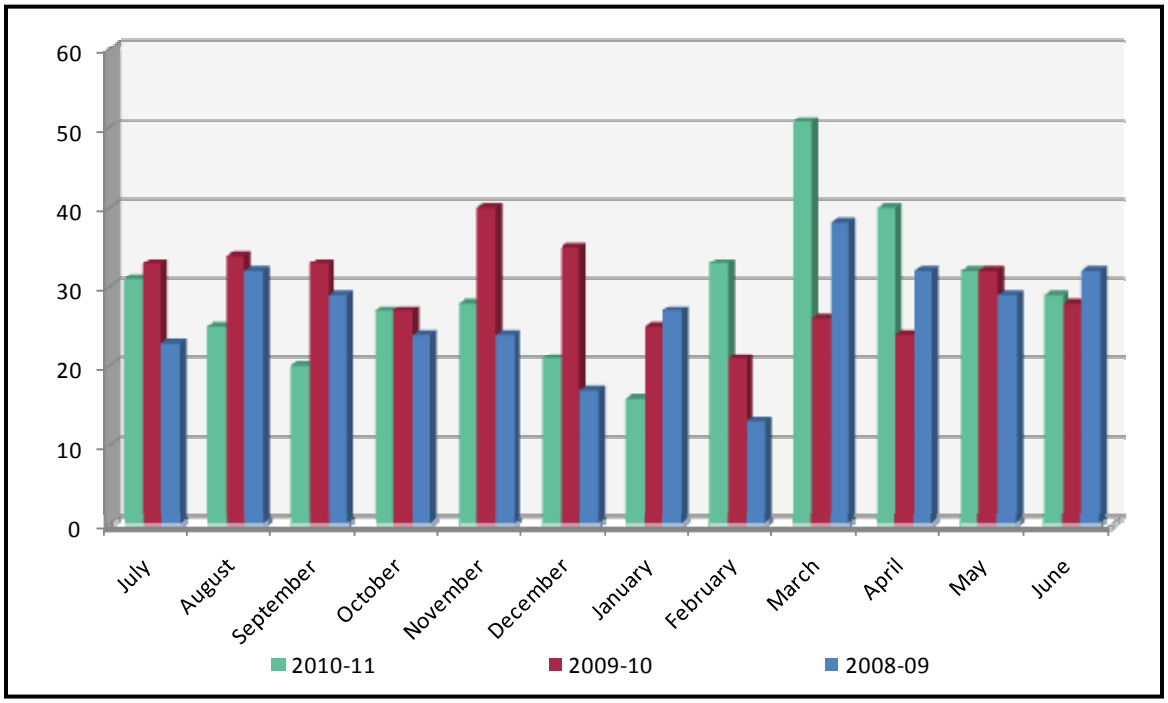


Chart 2.2: Comparison of monthly cases received

While we saw a minimal change in the number of cases received during the year, there was a larger decline in the number of subjects of those cases. The total number of subjects declined by 21%, to 843 in 2010/2011, from 1,071 in 2009/2010.

There was an even larger decline in the number of natural persons reported as subjects, which declined by 45% from 454 in 2009/2010 to 248 in 2010/2011. There was also a 4% decrease in number of legal entities that were reported as subjects, as this figure decreased from 617 in 2009/2010 to 595 in 2010/2011.

Chart 2.3 below shows the total number of legal entities and natural persons identified as subjects of suspicious activity reports for in 2010/2011.

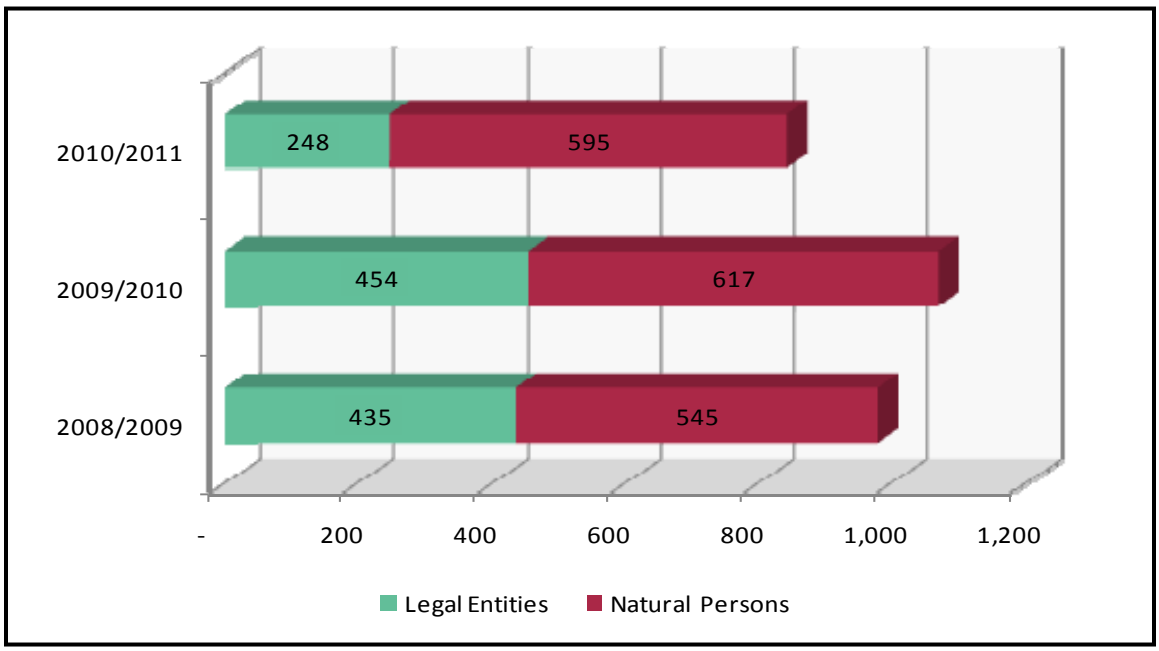


Chart 2.3: Number of subjects by financial year

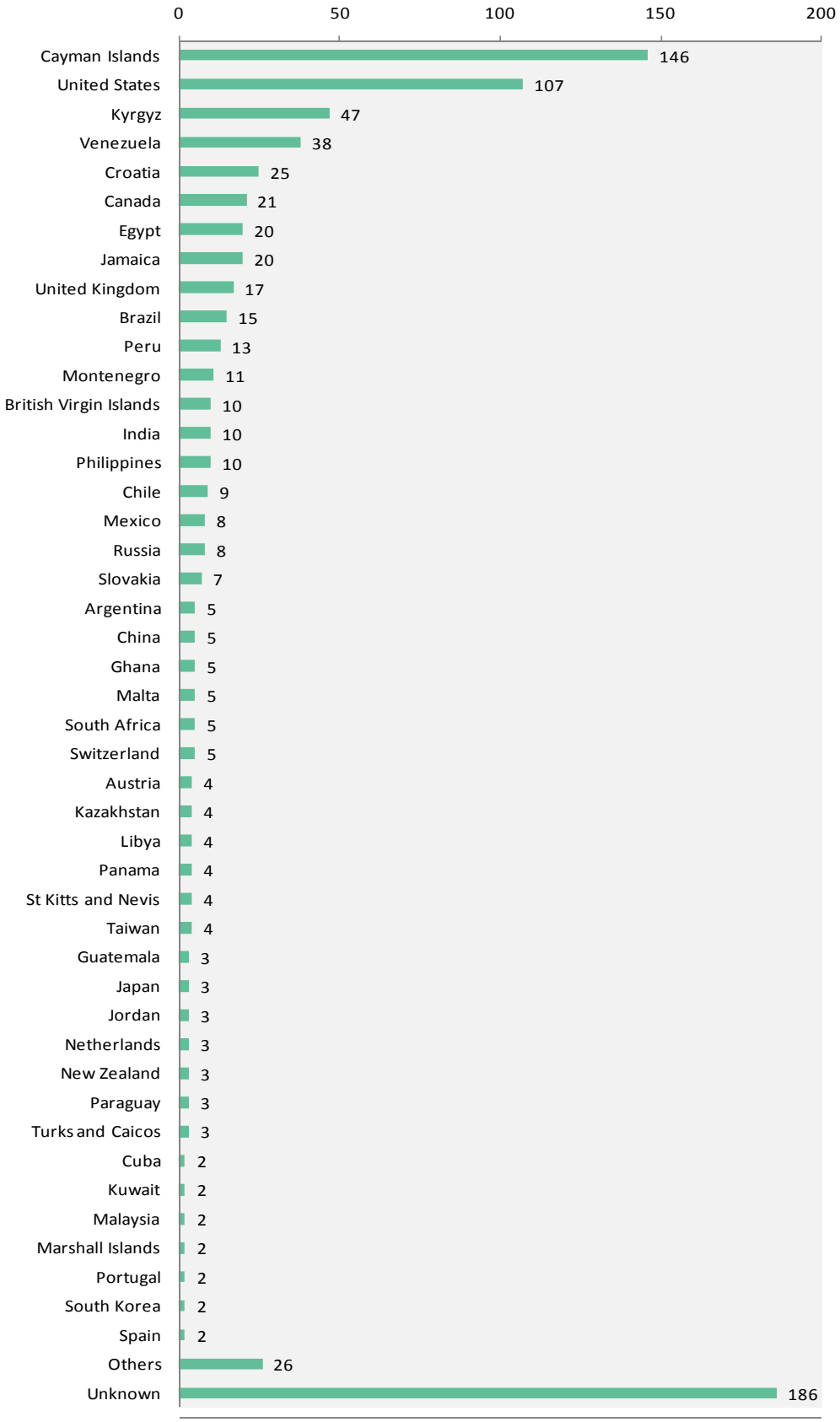


Chart 2.4: Countries of all subjects in cases reported in 2010/2011

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 previous page lists 71 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 has enhanced the analysis of information reported and the development of intelligence. In previous years we have shown only the nationality of the main subjects reported in SARs, this however presented an issue when two or more subjects are identified as only the nationality of primary subject is shown. This year's chart shows the nationality of all subjects identified in SARs received during the year.

The Cayman Islands is the nationality or domicile of the greatest number of subjects with 146, comprised of 126 legal entities and 20 natural persons. The United States is the second largest, at 107 subjects comprised of 13 legal entities and 94 natural persons. The large number of subjects from Kyrgyz and Venezuela is mostly due to a large number of subjects identified in their requests for information.

The category "Others" in the chart 2.4 is comprised of one subject each from Bahamas, Bahrain, Bermuda, Columbia, Cyprus, Estonia, Gibraltar, Hungary, Indonesia, Iran, Ireland, Israel, Italy, Mauritius, Norway, Pakistan, Qatar, Saudi Arabia, Senegal, Singapore, Sri Lanka, St. Vincent and the Grenadines, Trinidad and Tobago, Ukraine, Uzbekistan and Yemen.

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 provide complete identification for the subject of their request, and these are accordingly represented as "unknowns" in the chart on the next page.

Sources of Cases

Chart 2.5 below shows a detailed breakdown of the sources of cases. Cayman Islands Monetary Authority (CIMA) regulated financial service providers, which include banks, company managers/corporate service providers, trust companies, mutual fund administrators and insurance managers, provided a substantial portion of the cases that we received. The five largest contributors were:

- Banks - 96
- Overseas Financial Intelligence Units - 66
- Company Managers - 44
- Trust Companies – 39
- Mutual Fund Administrators - 30

Banks continue to be the largest source of cases received. Yet the actual number of cases received from banks declined to 96 from 132 received the previous year. We also noticed that the number of banks making reports declined to 18 from 24 in 2009/2010.

The largest number of cases we received from non-regulated entities came from attorneys-at-law. Other non-regulated entities filing reports included: external auditors, liquidators, and realtors.

A notable decline came from money transmitters which fell from 10 to 24.

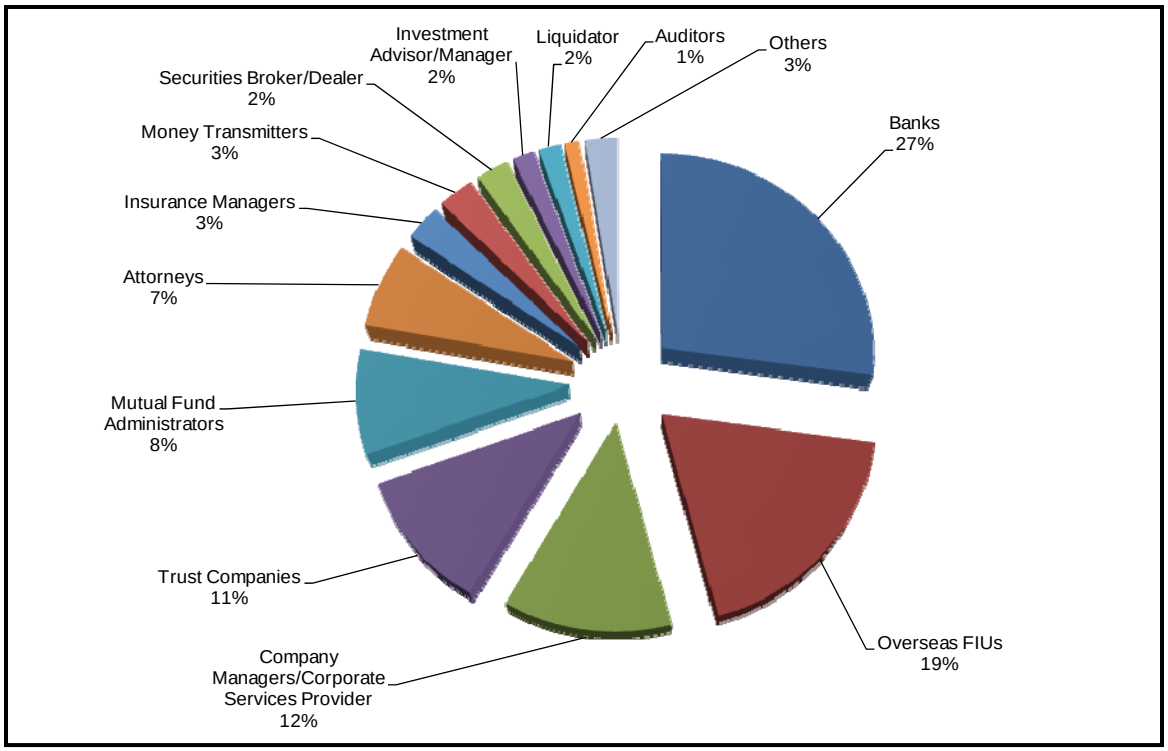


Chart 2.5: Sources of cases

Analysing Information

The FRA conducts in-depth research and analysis using a combination of knowledge, analytical expertise and advanced technology. 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 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.

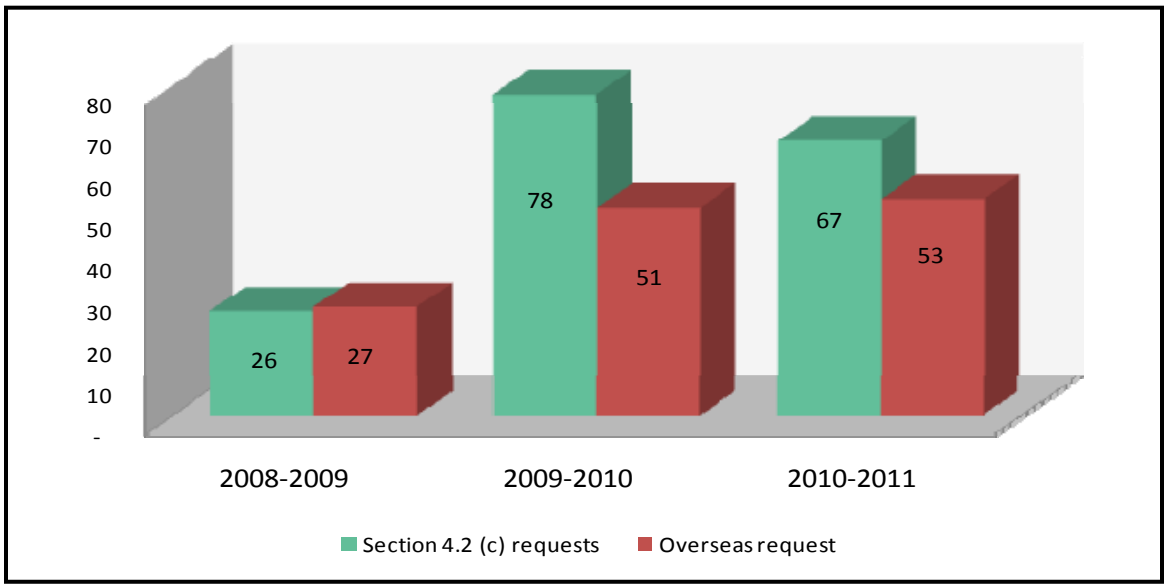


Chart 2.6: Number of request made locally and overseas

Consistent with the provisions of the Law, we made 67 requests locally to clarify or amplify information, received in 56 SARs during the year. We also made 53 requests for information to our overseas counterparts, via the Egmont Secure Web, for another 44 SARs. These requests have greatly assisted our determination to make disclosures to local law enforcement as well as to our overseas counterparts. Chart 2.6 above shows a smaller number of requests made locally and overseas for 2008-2009, compared to succeeding years, as our database only allowed those requests to be captured electronically in the latter half of 2008-2009.

When a report is received, our analysts look at what has been provided together with their own network of data sources, to analyse the case and assess if there is evidence of money-laundering or financing of terrorism. In so doing the FRA builds up its own bank of financial intelligence. An important judgment that needs to be made is whether the information gathered causes the FRA to suspect that criminal conduct has been committed. 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.

SARs Trend Analysis

The five most common reasons for filing reports are:

- suspicious financial activity - 134
- fraud - 97
- money laundering - 22
- declined business - 17
- corruption - 14

Chart 2.7 below provides the detailed breakdown of the reasons for suspicion.

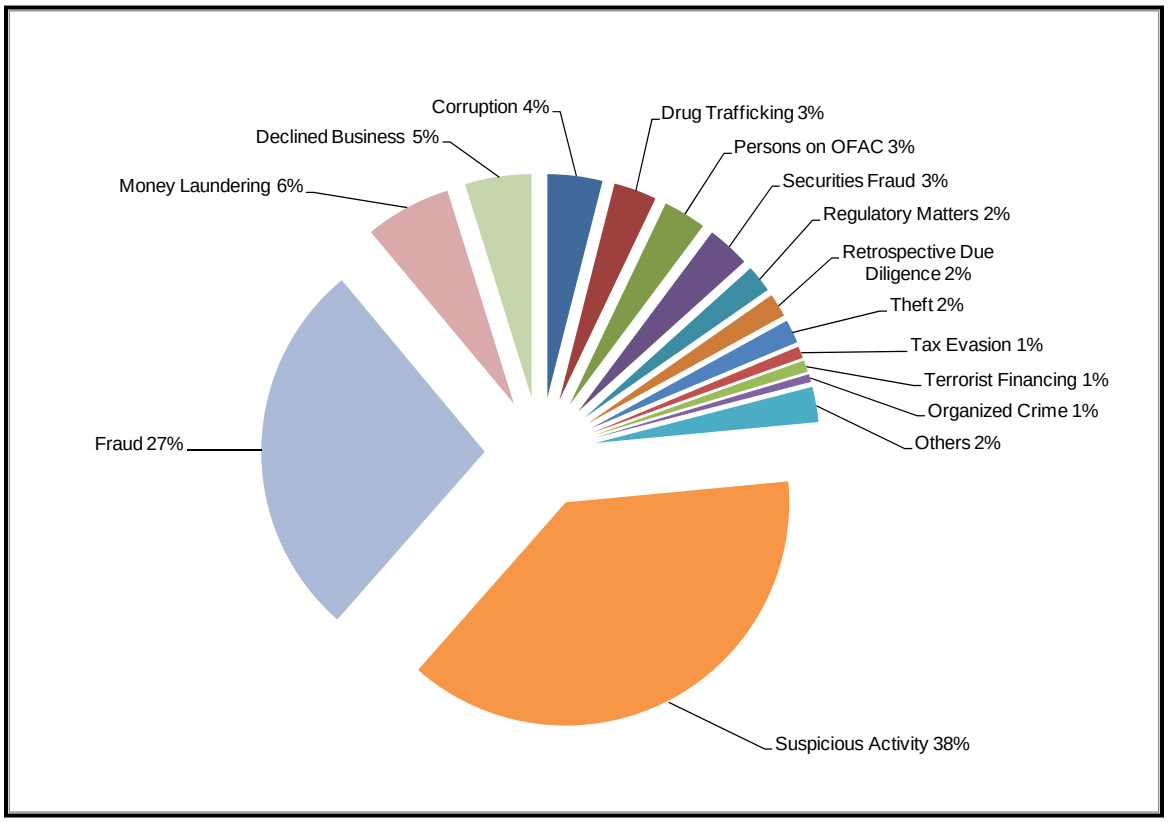


Chart 2.7: Reasons for suspicion

Suspicious 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. We at the FRA recognise 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 our statutory threshold and no link to criminal activity is established.

Nevertheless, these reports form a vital part of our intelligence and help build a clearer picture of the money-laundering threat to the Islands and help safeguard us against criminal elements.

Consistent with prior years, the majority of cases received in 2010/2011 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. Cases range from internet fraud, cheque fraud to other financial scams. During 2010/2011 the FRA noted an increase in reports regarding counterfeit or fake cheques being used in a growing number of debt collection scams.

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.

Internet Fraud

Another 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. We have 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.

Then they 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

We have 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 seen several cases where fraudulent websites have been set up which closely mirror a legitimate website (typically a bank). Investors who send money to the "bank" end up losing it. 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.

Other notable trends

Money laundering, declined business and corruption make up the remaining top five reasons for filing reports. Suspicions of money laundering were the third most common reason for the filing of reports at 6% of the total cases, slightly down from 7% the year before. Suspicious activity reports about declined business decreased to 5% in 2010/2011 from 7% in 2009/2010. While no transactions or activity has taken place in these reports, they allow law enforcement to build a clearer picture of the money laundering threat to these islands.

Suspicions about corruption make up 4% of the cases received in 2010/2011, a slight increase from 3% in 2009/2010. 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 our 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. 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 future developments.

During the year, 94 cases resulted in 118 voluntary disclosures of financial intelligence being made to local law enforcement agencies and, with the consent of the Attorney General to overseas FIUs. 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.

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 85 disclosures of financial intelligence shared with our overseas counterparts, are comprised of 59 replies to requests for information and 26 voluntary disclosures to overseas FIUs and other law enforcement agencies as seen in chart 2.8 on the next page. Those

disclosures went to 36 different countries, up from 28 the year before, an increase that highlights the international nature of our AML/CFT regime.

The greatest number of disclosures was to the United States of America at 24, followed by Montenegro and Kyrgyz Republic each with five, and Brazil and Peru each with four. Chart 3.8 below shows a detailed breakdown.



Chart 2.8: Overseas disclosures and replies to request for information

Disposition of Cases Carried Over from 2009/2010

Chart 2.9 illustrates the disposition of the 41 cases carried over from 2009/2010. Of these 41 cases:

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

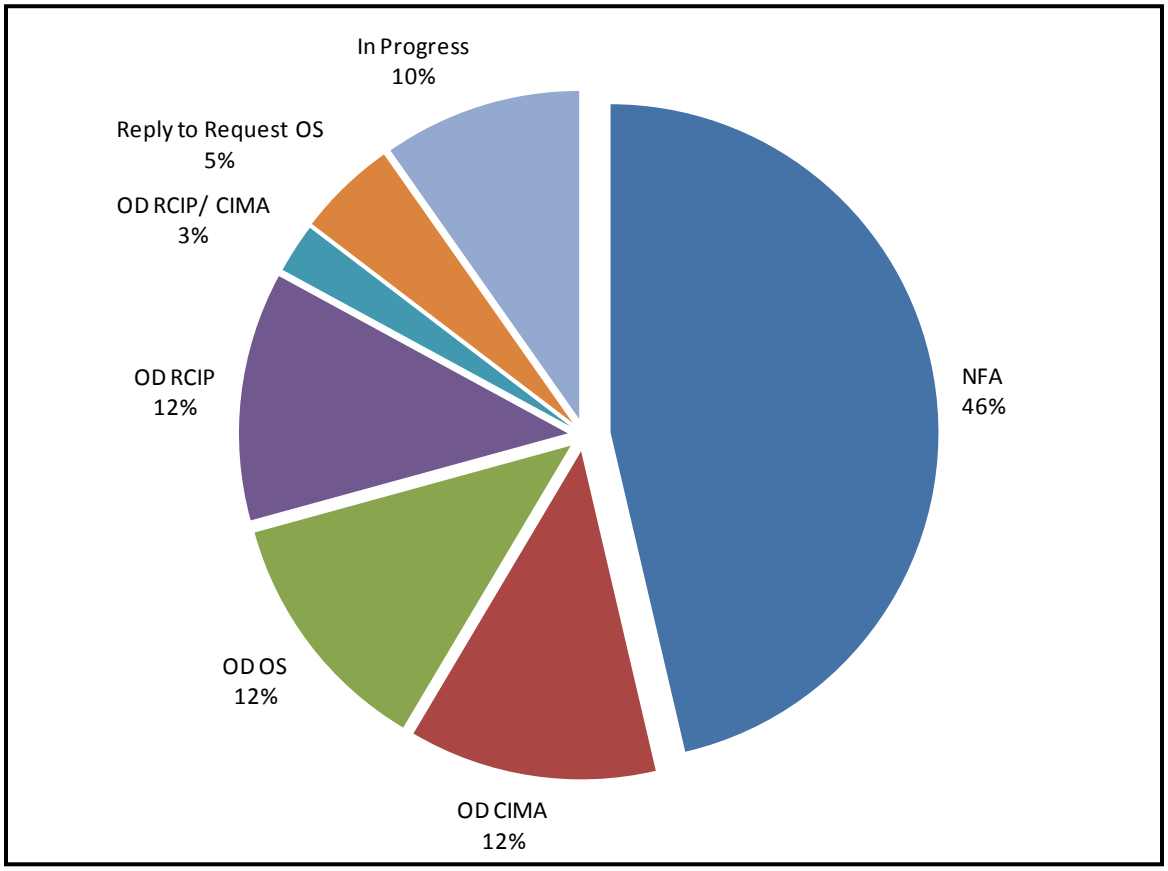


Chart 2.9: Disposition of cases carried over from 2009/2010

Significant Events

The 32nd CFATF Plenary and Ministerial Meeting

In November 2010, the Caribbean Financial Action Task Force (CFATF) Plenary and Ministerial Meeting was held in Grand Cayman. During that meeting the Cayman Islands assumed chairmanship of the CFATF. This is the second time that the Cayman Islands has taken on this mantle and we are grateful for the confidence that our counterparts in the region have shown in our ability, by once again inviting us to lead this prestigious organisation. Through its work, CFATF has increased the region's participation in setting global standards for anti-money laundering and the fight against terrorism financing.By its membership of this body, the Cayman Islands reiterates its commitment to strict anti-money laundering standards and international cooperation.

An area in which the Cayman Islands is particularly interested, is the Training and Capacity Building Project for Financial Investigators and Analysts, run by the Accreditation and Training Working Group of the Heads of Financial Intelligence Units Forum. It is envisaged that this training will standardise the analytical and investigative processes used throughout the region.

Civil Forfeiture under Proceeds of Crime Law

In December 2010, the Cayman Islands Government used the civil recovery provision for proceeds of unlawful conduct, under the Proceeds of Crime Law 2008, to order a resident foreign national to pay US$180,000 in civil settlement, reflecting the profit he had made operating a business without the appropriate license issued by the CIMA.

Industry Presentations

The FRA staff continued to give a number of presentations, including one to the Cayman Islands Compliance Association in November 2010, to help educate the industry on the salient points of the Proceeds of Crime Law, 2008. In April 2011, staff also gave a similar a presentation during an event organised by the Active Group to help improve the quality of SAR reporting.

Relocation to New Government Administration Building

Also in April 2011, the FRA relocated its offices into the New Government Administration Building at 133 Elgin Avenue. The new facility provides ample space for maintaining the FRA records and should accommodate any future increase in staff.

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

The following is a compilation of sanitised cases on successes and learning moments in the fight against money laundering and terrorist financing. These cases have 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. 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 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



3. 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 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

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 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

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 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 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 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 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 or www.FATF-GAFI.org or www.cfatf-gafic.org.

IV. STRATEGIC PRIORITIES: 2011/2012 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. CAPACITY BUILDING

Priorities: Ensure the continued development of staff .

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 familiarity with current local and global AML/CFT issues.

2. ENHANCE REPORTING OF INFORMATION

Priorities: Maintain a cooperative interface with reporting entities 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.

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 legislations related to AML/CFT, and

other useful and related information including additional trends and typologies at Egmont Group, FATF and CFATF websites.

3. PRODUCE INSIGHTFUL AND RELEVANT INTELLIGENCE REPORTS

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

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

4. 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, locally and overseas, so as to measure the effectiveness of our contribution in the fight against money-laundering and terrorism financing, as such result could beneficial to our reporting entities.

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 Recommendations 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)

CONTACT INFORMATION

Address

Financial Reporting Authority

133 Elgin Avenue

4th Floor, Government Administration Building

George Town, Grand Cayman

Cayman Islands

Mailing Address

P.O. Box 1054

Grand Cayman KY1-1102

Cayman Islands

Telephone: 345-945-6267

Fax: 345-945-6268

Email: financialreportingauthority@gov.ky

Visit our Web site at: www.fra.gov.ky