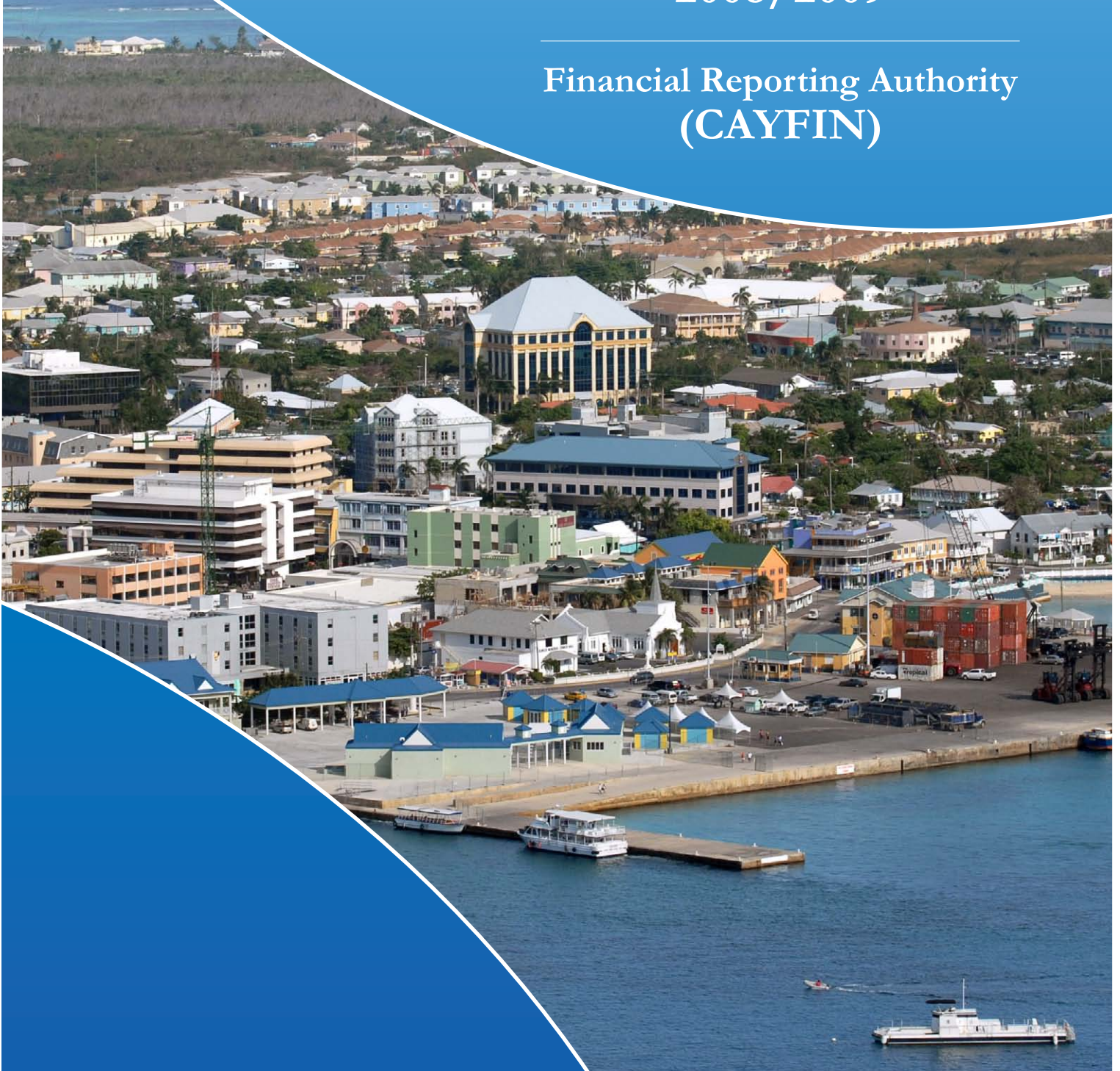




CAYMAN ISLANDS
GOVERNMENT
PORTFOLIO OF LEGAL AFFAIRS

ANNUAL REPORT 2008/2009

Financial Reporting Authority
(CAYFIN)



FINANCIAL REPORTING AUTHORITY (CAYFIN)



19 September 2009

The Honourable Samuel Bulgin, QC, JP
Attorney General
Chairman, Anti-Money Laundering Steering Group
Government Administration Building
George Town, Grand Cayman
Cayman Islands

Dear Honourable Attorney General,

Pursuant to section 30 (b) and in accordance with section 11 (b) of the Proceeds of Crime Law 2008 (PCL), I hereby respectfully submit the sixth Annual Report and Statistical Summary of the Financial Reporting Authority for the period ended 30 June 2009. This report outlines our activities in, and our contributions to, the fight against money laundering and terrorism financing.

A handwritten signature in black ink, appearing to read "L. Cacho".

Lindsey Cacho
Director
Financial Reporting Authority

Table of Contents

<i>Message from the Director</i>	3
<i>1. Who We Are</i>	4
• OUR ORGANISATION	6
• PROTECTING CONFIDENTIALITY OF INFORMATION	7
<i>2. The Year In Review</i>	8
• 2008/2009 CASES	8
• MEMORANDA OF UNDERSTANDING (MOUs)	8
• SIGNIFICANT EVENTS	9
• PROCEEDS OF CRIME LAW 2008	10
<i>3. The Work of the FRA</i>	11
• RECEIVING INFORMATION	11
• REPORTING ACTIVITY REVIEW	11
• ANALYSING INFORMATION	16
• SARS TREND ANALYSIS	16
• TYPOLOGIES	17
• DISSEMINATING INTELLIGENCE TO LAW ENFORCEMENT	19
• DISPOSITION OF CASES CARRIED OVER FROM 2005/2006	21
<i>4. Strategic Priorities 2008/2009 Building on Strengths</i>	22
• THE YEAR AHEAD	22
• CAPACITY BUILDING	22
• ENHANCE REPORTING OF INFORMATION	22
• PRODUCE INSIGHTFUL AND RELEVANT INTELLIGENCE REPORTS	22
• APPROPRIATE DISSEMINATION OF INTELLIGENCE	22

Message from the Director

In fulfilment of the Cayman Islands' international obligations, the Financial Reporting Authority (FRA) was established in response to international requirements and standards to combat money laundering and terrorism financing. It is mandated to receive (and as far as permitted, request) analyse and disseminate financial intelligence to law enforcement agencies whose role is to investigate offences related to money laundering, terrorism, financing of terrorism and other related crimes. In this regard, I am happy to report on our activities for the fiscal year 2008/2009 as a successful year of achievement for the sixth successive period.

During the past year, we witnessed an increase of suspicious activities reported by the financial service providers as well as requests for information coming from our overseas counterparts. In spite of the economic downturn facing these islands as well as its effects worldwide, these increases may very well be attributed to the continued vigilance undertaken by the financial service providers and other entities with their reporting obligations. To them we express our gratitude.

Of the 320 cases received during the year, 284 were completed whilst 36 were still in progress as at June 30. During the same period 109 onward disclosures were made to local law enforcement agencies, the Cayman Islands Monetary Authority (CIMA) and overseas Financial Intelligent Units (FIUs) and law enforcement agencies. We also saw an increase in our onward disclosures to, and requests for information from, our overseas counterparts this year. This is an indication that the FRA is continuing its partnership with the international community in the fight against money laundering, financial crime and terrorist financing. Our membership of the Egmont Group is fundamental to our ability to exchange information as well as enhancing our international cooperation with our overseas counterparts. We remain

committed to continuing our membership as well as participating in its activities.

Our domestic outreach programme suffered a setback as we were unable to meet our regular schedule of meetings with the Money Laundering Reporting Officers of various financial and non-financial entities due in large part to having to undertake an increased workload with reduced staff. However, we were able to attend and give lectures and guidance to a number of institutions who sought our assistance in explaining the effect of the new Proceeds of Crime Law ("PCL") and how it would impact their reporting obligations. We will continue to foster better working relationships with the industry as we recognise the benefit that these relationships have on our endeavours.

During the year, with the approval of the Anti-Money Laundering Steering Group ("AMLSG"), we assisted with the training of two of our counterparts from Montserrat who were on secondment to both the Royal Cayman Islands Police Service and the FRA. This provided an opportunity to share our expertise with our regional partners as well as to exchange ideas.

The staff of the FRA wishes to thank our partners in the reporting entities, law enforcement and regulatory agencies for their continued support and the vigilance shown by them during the year. We also thank the AMLSG for its continued stewardship, support and cooperation throughout the year.

In closing, I recognise and express my appreciation for the hard work performed by my staff in accomplishing another successful year in the face of increasing workload and thank them for their dedication and commitment to overcoming the many challenges which were met.



Lindsey Cacho
Director

1. Who We Are

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

The FRA is a product of evolution which first began as the Financial Investigation Unit in the early 1980s, working from an office in police headquarters. By 1998, it had progressed little but it had achieved some degree of 'independence' by acquiring non-police accommodation, and while some ancillaries were funded by the Portfolio of Legal Affairs, it was still in essence part of the police service. By year 2000, it had undergone a name change to the Financial Reporting Unit (FRU) employing 12 staff, with the Head of Unit becoming a civilian post and the appointment of a legal adviser. Line management for operational work now came under the office of the Hon. Attorney General. The role of the Unit prior to the commencement of the PCCL however, remained throughout as the receiver of SARs, analyser, investigator and gatherer of evidence to support prosecutions.

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

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

Both attributes are instrumental in the due process of justice and the latter an important

consideration in the FIU being styled as a helpful 'buffer' type between the confidential needs of a vigorous, competitive financial industry and combating crime by law enforcement.

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

Our Main Objective

- The main objective of the FRA is 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) (Since September 30th 2008)
- Proceeds of Criminal Conduct Law (2007 Revision)
- Misuse of Drugs Law (2000 Revision)
- Terrorism Law 2003

Our Principal Activities

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

Our Principal Products

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

Governance

We are under the guidance of the Anti-Money Laundering Steering Group which consists of the

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

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

Our Organisation

- **Building Organisational Effectiveness**



As at the date of this report the FRA team (from left to right)

back row:

- Mr. Adam Roberts, Legal Advisor
- Mr. Lindsey Cacho, Director
- Mr. Julian Hurlston, Acting Senior Financial Analyst
- Mr. Roman Reyes, Senior Accountant

front row:

- Mrs. Elena Jacob, Financial Analyst
- Ms. Sharon Dhamalie, Administrative Manager.

Mrs. Vivien Kaye, Senior Financial Analyst resigned in February 2009 and Mr. Fred Heard, Senior Accountant retired in April 2009. Mr. Roman Reyes joined the FRA as Senior Accountant in September 2009.

Throughout 2008/2009 we improved our analytical capabilities through the staff's attendance at 46 days of training at presentations and seminars. These included a seminar at the United States Securities and Exchange Commission on Securities Enforcement & Market Oversight, training in Financial Manipulation Analysis, the Cambridge Symposium on Economic Crime and other industry conferences.

We have also gained valuable experience from a total of 26 days representing the FRA at Egmont Group proceedings, the Caribbean Heads of FIUs and participation in the Egmont Group's Information Technology Working Group.

This growing expertise combined with the implementation of enhanced software tools has enabled a more advanced level of analysis.

- **PROTECTING CONFIDENTIALITY OF INFORMATION**

The PCL provides the framework for the protection of information obtained by the FRA. A layered approach to security has been adopted for the unit's office and systems. The protection of financial information received from reporting entities is a critical function. Our computer security prevention measures include advanced firewalls to prevent unauthorised access to

our database. Staff is aware of its responsibilities to protect information and severe penalties exist under the law for the unauthorised disclosure of the unit's data.

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

2. The Year In Review

- **2008/2009 CASES**

In 2008/2009, the FRA received 320 new cases as compared to 2007/2008 when we received 247 cases. The following table shows the disposition of the cases as at 30 June 2009:

Disposition	Number of Cases	
	2008/2009	2007/2008
Cases Analysed Requiring No Further Immediate Action	118	98
Onward Disclosed to CIMA Only	17	4
Onward Disclosed to CIMA and Overseas FIU	6	0
Onward Disclosed to RCIP/CIMA	8	2
Onward Disclosed to RCIP Only	47	27
Onward Disclosed to RCIP/Immigration	1	0
Onward Disclosed to RCIP and Overseas	7	3
Onward Disclosed to Immigration	1	0
Onward Disclosed to overseas FIU only	22	34
Reply to Request from Overseas	57	45
In Progress (as at 01 July 2009)*	36	34
*Includes 5 Requests from Overseas		
Total Cases	320	247

- **MEMORANDA OF UNDERSTANDING (MOUs)**

In March 2009 the FRA was delighted to welcome a delegation from Japan Financial Intelligence Center (JAFIC), the Japanese FIU, who visited the Cayman Islands on a goodwill, fact - finding visit. Since that time, negotiations with Japan have been continuing with a view to signing a MOU between the two countries. It is also hoped that talks with South Africa and Ukraine will all end with MOUs being signed with those countries.



Mr. Lindsey Cacho presents a crest of the Cayman Islands to The Director for International Cooperation of the Japan Financial Intelligence Center (JAFIC), Chief Superintendent Shuhei Kojima on his visit to Cayman.

• **SIGNIFICANT EVENTS**

The Egmont Group

The Egmont Group is an informal association of FIUs which now comprises 116 member countries. It sets standards for membership and common rules and procedures for confidential information exchange. Egmont has become the fulcrum of the FIU world for international co-operation amongst member countries. The Cayman Islands' agreement to abide by the Egmont Group Principles for Information Exchange preceded the Cayman Islands' admission to full Egmont membership in the year 2000. Cayman has served on the Egmont Information Technology Working Group and the Director attends the Egmont Plenary and Heads of FIUs meeting each year.

The Egmont Group facilitation of the exchange of information is based on the concept of reciprocity or entering into bilateral agreements between member countries whose legislation does not permit its FIU to exchange information without an MOU. A MOU is a document outlining each party's role and responsibility with regard to the sharing of information in support of the investigation or prosecution of money laundering and/or terrorist financing.

Caribbean Financial Action Task Force

The third evaluation of the Cayman Islands' anti-money laundering (AML) and combating the financing of terrorism (CFT) regimes by the Caribbean Financial Action Task Force (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

In this context, the FRA is authorised by law to exchange information with its counterparts without an MOU but has signed eleven agreements with those countries whose legislations require one.

The financial business of the Cayman Islands is predominantly international and the FRA's commitment to financial confidentiality is both inter-agency and international. Financial intelligence about money laundering as well as terrorist financing particularly relies upon collaboration with overseas FIUs with connections to the information in receipt. To acquire information from and provide information to authorised agencies and between nations and yet to retain measures of control over the use to which the information is put requires a detailed agreement between the concerned parties. Therefore, the law provides a power for the FRA, subject to the consent of the AMLSG, to enter into such agreements, where the Director considers necessary or desirable for the discharge of FRA duties, S4 (2) (e) PCL 2008.

the FATF 40+9). This compares favourably with third-round evaluations to date of FATF countries.

Three further updates to the Recommendations have been provided at the CFATF Plenaries with progress reported in all but seven recommendations. It is anticipated that significant progress will be made towards addressing the outstanding recommended actions for the Cayman Islands at the next Plenary in October 2009.

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 December 2008. 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.

Proceeds of Crime Law

This has been a year of transition for the FRA and the financial industry in the Cayman Islands as far as the law is concerned.

The Proceeds of Crime Law 2008 (PCL) came into effect on September 30th 2008, which meant that the Cayman Islands' financial industry and the FRA operated under different pieces of legislation during the reporting period. When the PCL came into effect, the PCCL was repealed.

The FRA staff gave a number of presentations to help educate the industry on the scope of the new Law. Important changes have been made to the whole structure of anti-money laundering and financing of terrorism legislation with the main provisions consolidated in one statute whereas before these were in three separate pieces of legislation.

For the FRA, a significant development has been the introduction of a 72 hour limit within which a request for further information must be answered (making it a criminal offence not to comply).

The new Law re-defines, clarifies and simplifies the offences relating to money-laundering and the obligation to make reports of suspicious activity to the FRA. The Law introduced the concept of negligence to the duty of disclosure, imposing a duty to report (and making it a

criminal offence not to report) if the person receiving the information knows or suspects or has reasonable grounds for knowing or suspecting that another person is engaged in criminal conduct if that information came to him in the course of a business in the regulated sector or other trade, profession, business or employment.

Another important development is the widening of the circumstances in which both the Grand Court and the Summary Court can make confiscation orders. Previously only convictions for indictable offences carried the threat of confiscation orders, but the Law introduces the power to make a confiscation order after a conviction in the Summary Court and also allows the Attorney General to seek a committal to the Grand Court for this purpose. The Law also introduces civil forfeiture measures.

Another widening of the scope of the Law is in the definition of criminal conduct. Both for the purposes of confiscation under Part III and money laundering considerations under Part V, criminal conduct is now defined as any offence committed in the Cayman Islands or which would have constituted an offence if committed in the Cayman Islands. It was previously confined to indictable offences. Another important development is that criminal conduct for the purpose of the Law can relate to conduct that occurred before the Law came into force.

3. The Work of the FRA

RECEIVING INFORMATION

Suspicious Activity Reports (SARs)

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

Anyone who initiates a disclosure has a defence to any potential related money laundering offences. Disclosures made

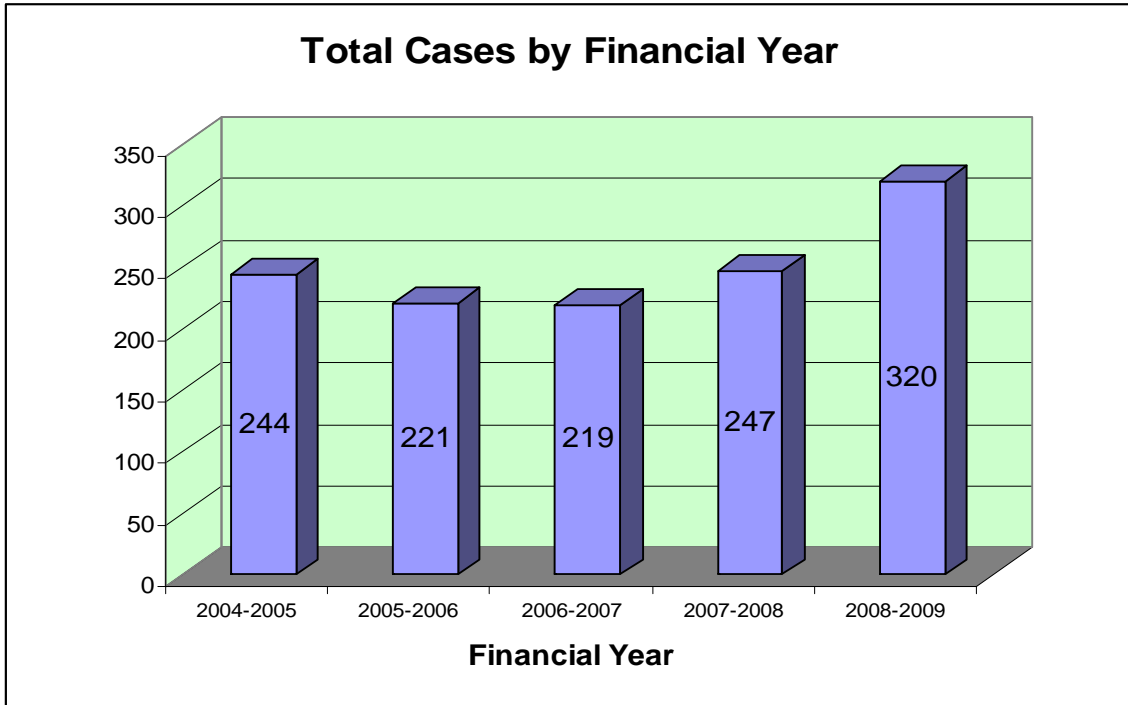
under the Law do not breach the Confidential Relationships Preservation Law nor do they give rise to any civil liability. **An important exception to this rule is that it is no defence to such liability if the person making the report is also the subject of the report.**

REPORTING ACTIVITY REVIEW

The table below shows the total number of cases by financial year since 2004/2005. As noted above, in 2008/2009 the unit received 320 new cases which is 73 cases more than 2007/2008 or a 29 percent increase.

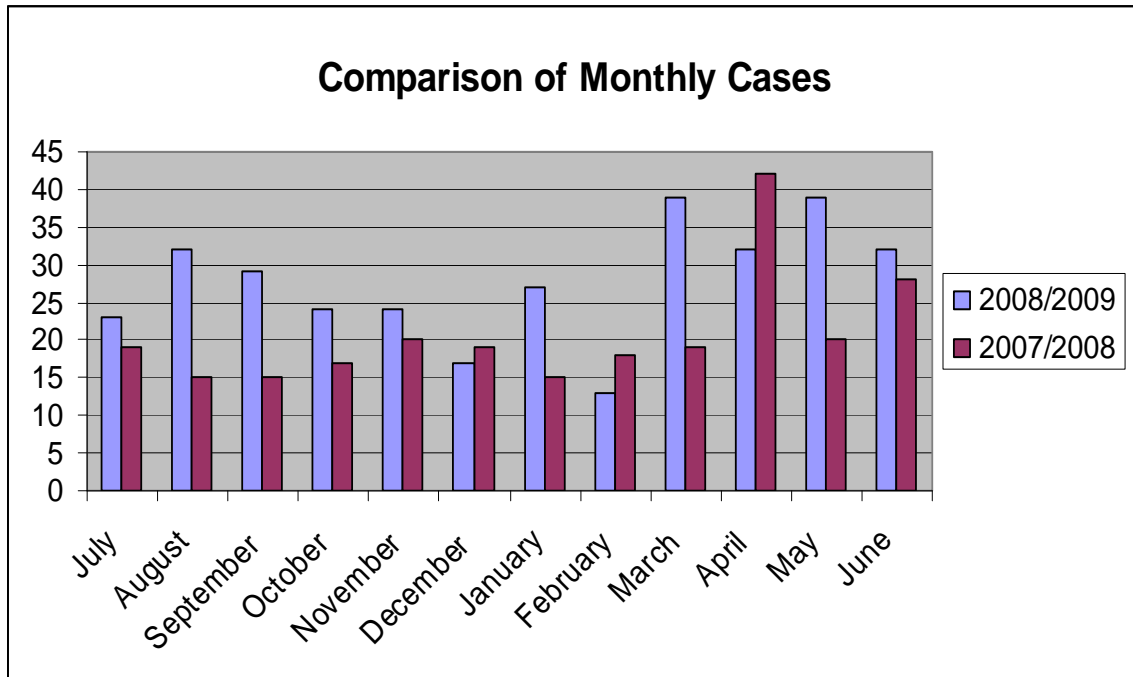
The trend in 2008/2009 has shown a significant increase over the five year average of 250.

The 320 new cases involved 435 legal entities and 545 persons and the total number of subjects increased by 30% from 754 in 2007/2008 to 980.



Financial Reporting Authority Annual Report 2008 - 2009

The total monthly number of cases received is compared to the previous year in the following chart. The two years are similar in that the most active months are March – June.



Financial Reporting Authority Annual Report 2008 - 2009

Sources of Cases

The chart below shows a detailed breakdown of the sources of cases. Of the 320 cases received during 2008/2009, the five largest contributors made up 251 of the total cases received. They were:

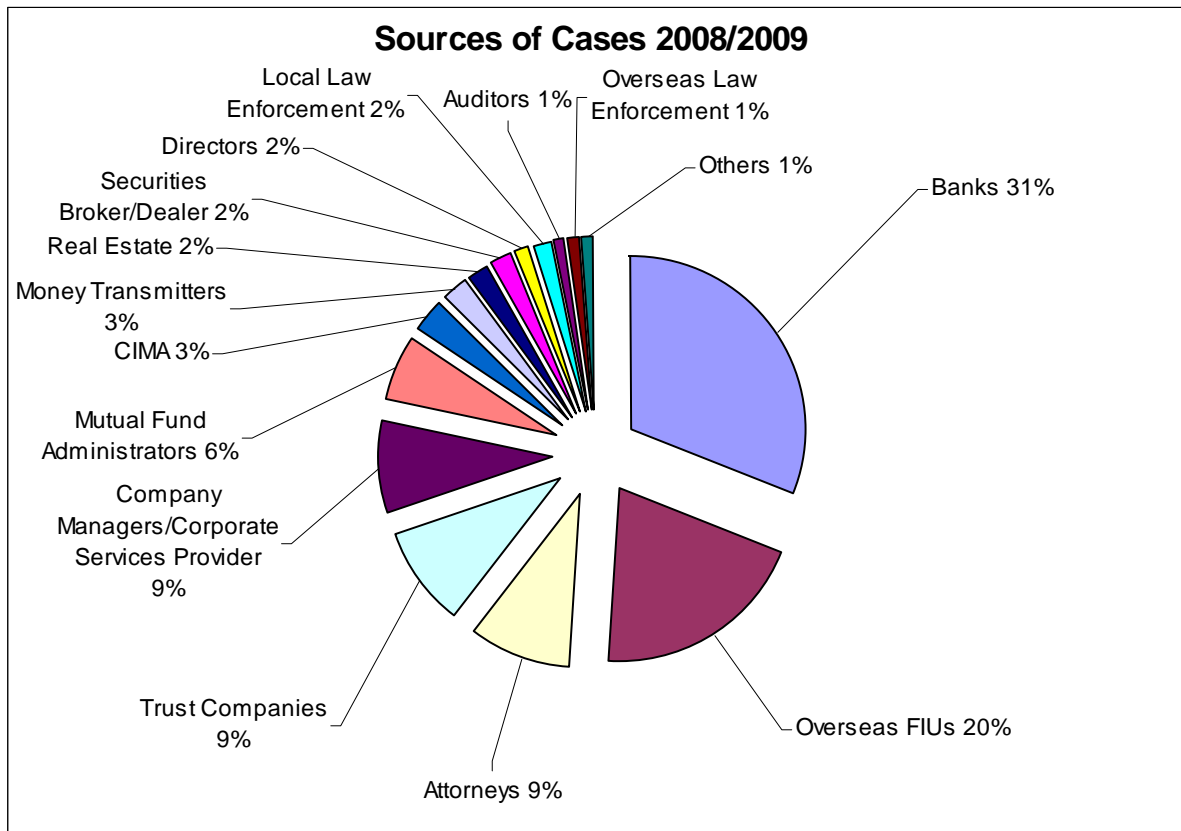
- Banks at 100
- Overseas Financial Intelligence Units at 63
- Attorneys at 30
- Trust Companies at 30
- Company Managers at 28.

The remaining 69 were from a wide variety of sources which are displayed on the chart below.

Banks continue to represent the largest source of cases. Although the percentage has decreased slightly from 32% last year to 31% this year, the cases have actually increased from 79 to 100.

The most significant increase in the source of cases in terms of percentage is independent directors which increased by 500%. Other significant increases came from the real estate sector which increased by 200% and mutual fund administrators which increased by 112% and securities brokers which increased by 100%.

Decreases came from insurance managers which declined by 25% and attorneys and trust companies which both declined by 9 %, respectively.

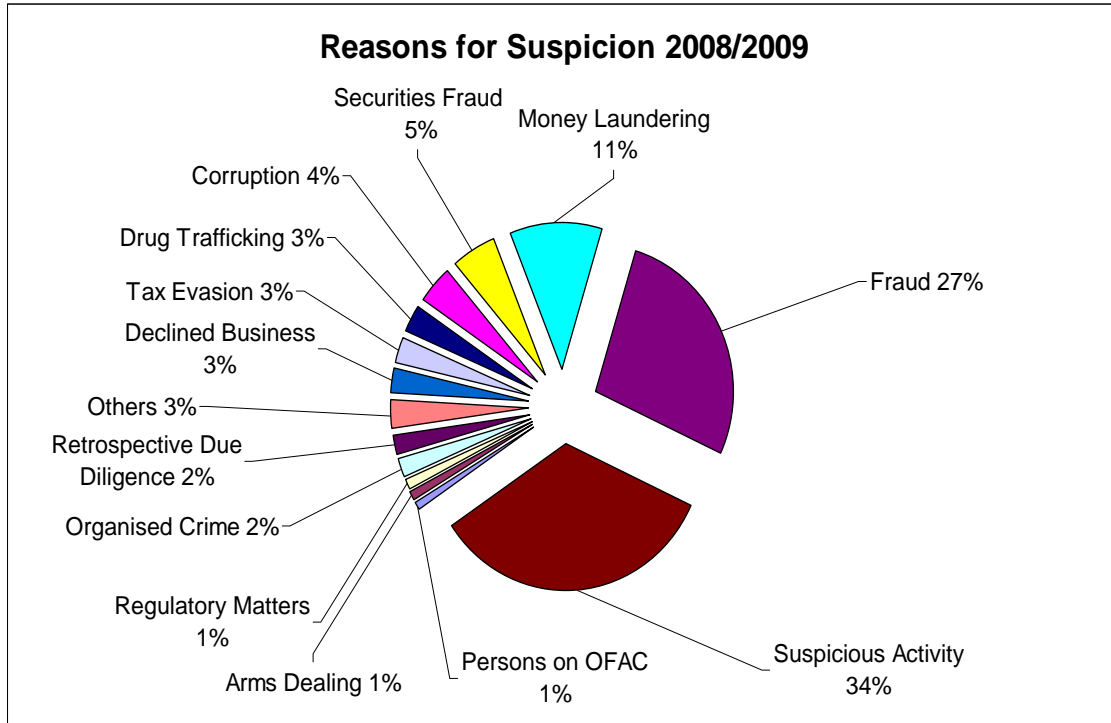


Others: Insurance Managers, Liquidators, Regulated Mutual Funds and Individuals

Reasons for Suspicion

The five most common reasons for filing reports are suspicious financial activity at 108 or 34%, followed by fraud at 87 or 27%, money laundering at 34 or 11%, securities fraud at 17 or 5% and corruption at 14 or

4%. The pie chart below provides the detailed breakdown of the reasons for suspicion.

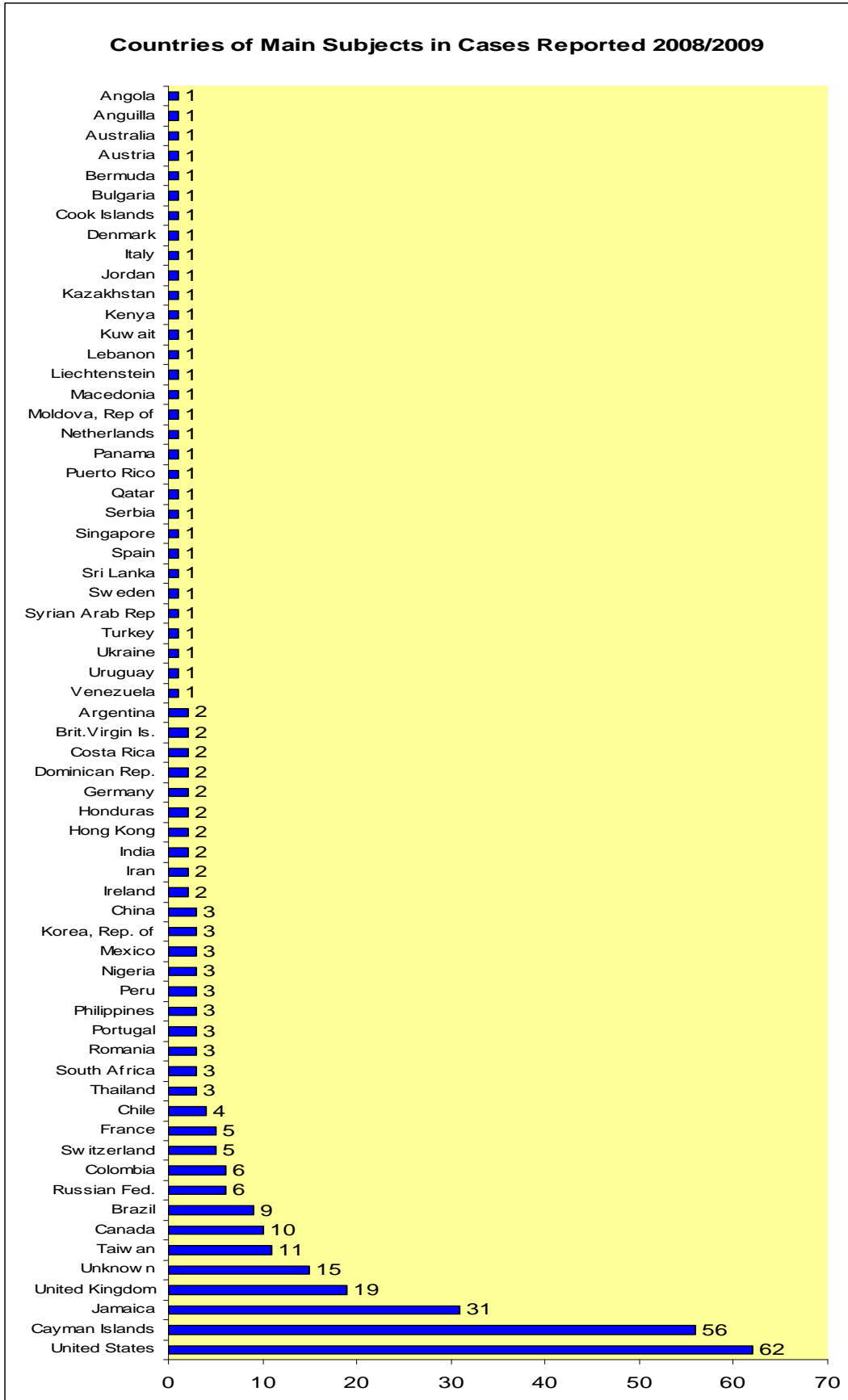


Countries of Subjects Reported

The international scope of the Cayman Islands' financial services industry is reflected in the wide range of subjects' countries reported in cases. The "Countries of Subjects" chart lists 64 different countries for the primary subjects of the reports, an increase from 55 last year. In light of the international character of the subjects reported, our membership in the Egmont Group has proven a valuable resource for information exchange, and has enhanced the analysis of information reported and the development of intelligence. As in our report last year the greatest number of primary

subjects are from the United States and increased by 6 to 62. For the second year in a row the largest increase was in subjects from the Cayman Islands which went from 34 to 56. Subjects can be persons or legal entities.

In many cases, particularly those relating to declined business, the nationality or domicile of the subject are not known. Those subjects comprise the "unknowns" on the following chart.



- **ANALYSING INFORMATION**

Analytical Capacity

The FRA conducts in-depth research and analysis using a combination of knowledge, analytical expertise and advanced technology. One important element of our analysis is the ability under the PCL to request information from any person for the purpose of clarifying or amplifying information disclosed in a Suspicious Activity Report. Failure to provide this information is an offence under the PCL. Such information must be provided to the FRA within 72 hours or a criminal offence has been committed. 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.

Cases are analysed along with other information, to develop financial intelligence in order to detect suspected money laundering and terrorist activity financing. The goal is to determine whether the required statutory threshold for onward disclosure to law enforcement agencies has been met. The statutory threshold is that the FRA has cause to suspect that criminal conduct has been committed (s.138 PCL). Based on our analysis, once we determine that the statutory threshold is met, the FRA onward discloses the information to the appropriate law enforcement agency or overseas FIU.

SARs Trend Analysis

The majority of cases received by the FRA in 2008/2009 related to suspicious activity and originated from local financial services providers. During the year cases concerning fraud increased by 8%. Other increases of 2% were seen in cases related to organised crime and corruption. The three largest decreases was seen in money laundering cases which decreased by 8%, internet fraud which decreased by 3% and politically exposed persons which decreased by 2%.

Suspicious Activity

Consistent with the prior year, the majority of cases received in 2008/2009 were due to

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

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

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)

Internet Fraud

Internet fraud is a growing concern for law enforcement. As technology has become an integral part of business and government processes, criminals also have come to rely on technology as a tool to support their

illegal operations. The Internet crosses international borders, making laws that apply to the Internet difficult to enforce. The FRA has seen several cases where fraudulent websites have been set up which closely mirror a legitimate website (typically a bank). Investors who send their money to the "bank" end up losing their money. Fraudulent websites have also been used for investment and securities fraud. These sites create hype to inflate the value of a given stock. The fraudsters then sell out at the inflated value. This is known as a "pump and dump" scheme.

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

1. Money Transmitters

A foreign national has been living in the Cayman Islands for the past four years and is employed as a cashier with a local company.

The foreign national frequently remitted funds from 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.

Indicators:

- Alternative remittance services

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

2. Suspicious Activity

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

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

Indicators:

- Structuring
- Use of non-domestic bank account

3. Money Laundering

A foreign company from a non schedule 3 country maintains a bank account with a local banking institution. The company does not have named shareholders, but rather utilises bearer shares and the beneficial owner of the company is a foreign national. During a due diligence exercise it was discovered that he was 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 subjects' 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 makes him responsible for procuring goods and services as well as hiring.

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

Indicators:

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

These examples are based on actual information we have received which have been sanitised in an effort to protect the identities of the individuals or entities concerned.

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

- 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 holds a Power of Attorney allowing him to trade in the account. This structure was devised to hide the managing director's trading in the overseas company and to hide assets from his illegal activities. The Cayman company holds 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

These examples are based on information we have received which has been sanitised so as to not reveal the identities of the parties concerned.

• DISSEMINATING INTELLIGENCE TO LAW ENFORCEMENT

Disposition of Cases

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

- local law enforcement agencies where there is *prima facie* evidence of criminal conduct or where the FRA has cause to suspect criminal conduct.
- the Cayman Islands Monetary Authority where the information is in relation to criminal conduct.
- overseas financial intelligence units (including law enforcement agencies) 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 any conditions of disclosure.

The statutory purposes of onward disclosure are to:

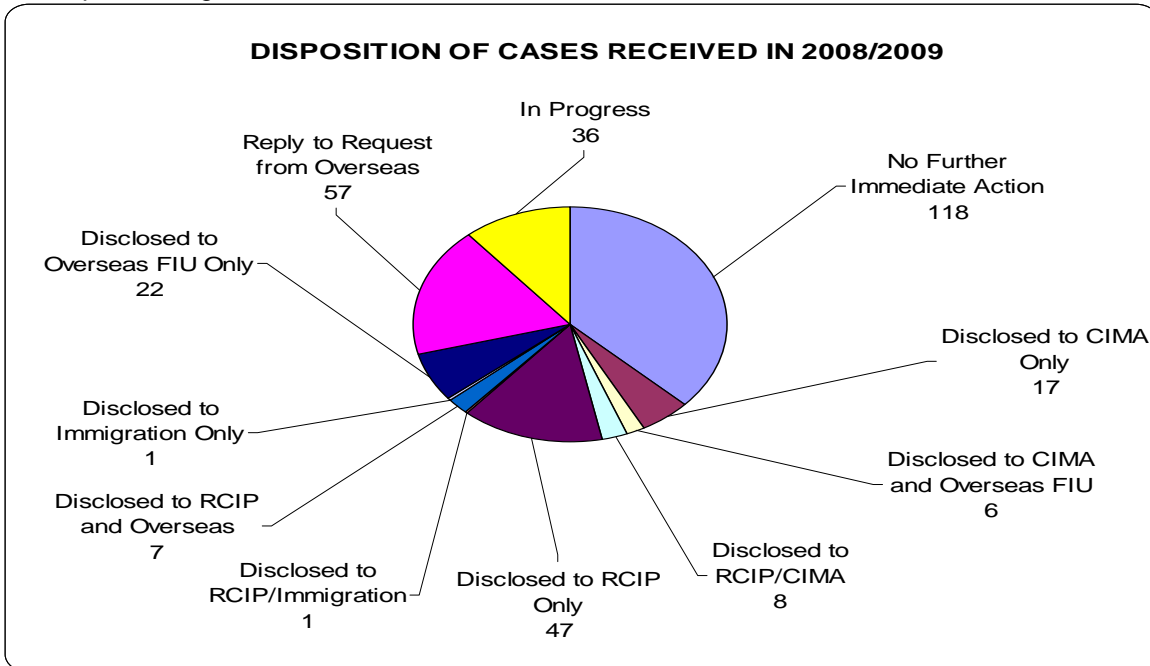
- report the possible commission of an offence;
- initiate a criminal investigation;
- assist with any investigation or criminal proceeding; or

- facilitate the effective regulation of the financial services industry.

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

- Of the 320 cases received, 118 required no further immediate action (2007/2008: 247 cases and 95 required no further immediate action). The information is stored in our database and monitored for future developments.
- Onward disclosures overseas were unchanged at 35 cases.
- Onward disclosures to local law enforcement nearly doubled from 32 to 63 cases.
- Disclosures to CIMA increased dramatically from 6 cases to 31.
- Replies to Requests for Information from overseas FIUs rose from 43 cases to 57.
- At the end of the year, 36 or 11% of the cases were still in progress, as compared to 34 or 14% the year before.

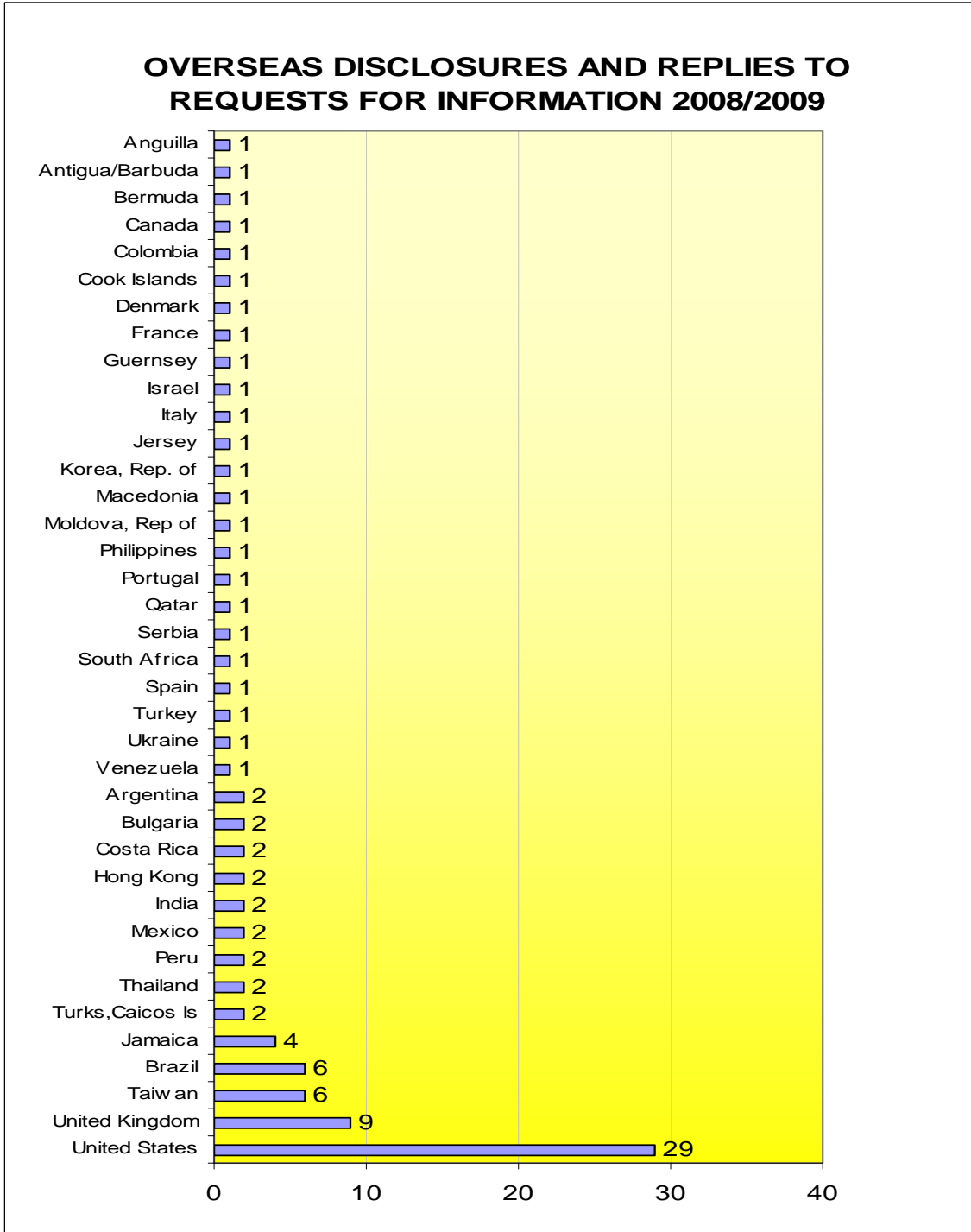
The pie chart below illustrates the disposition of cases for 2008/2009.



Onward Disclosures Overseas

The 92 cases that were replies to requests for information or disclosures to overseas FIUs and other law enforcement agencies went to 36 different countries, up from 28 the year before highlighting the continually growing international nature of AML/CFT. Some of the cases were disclosed to more

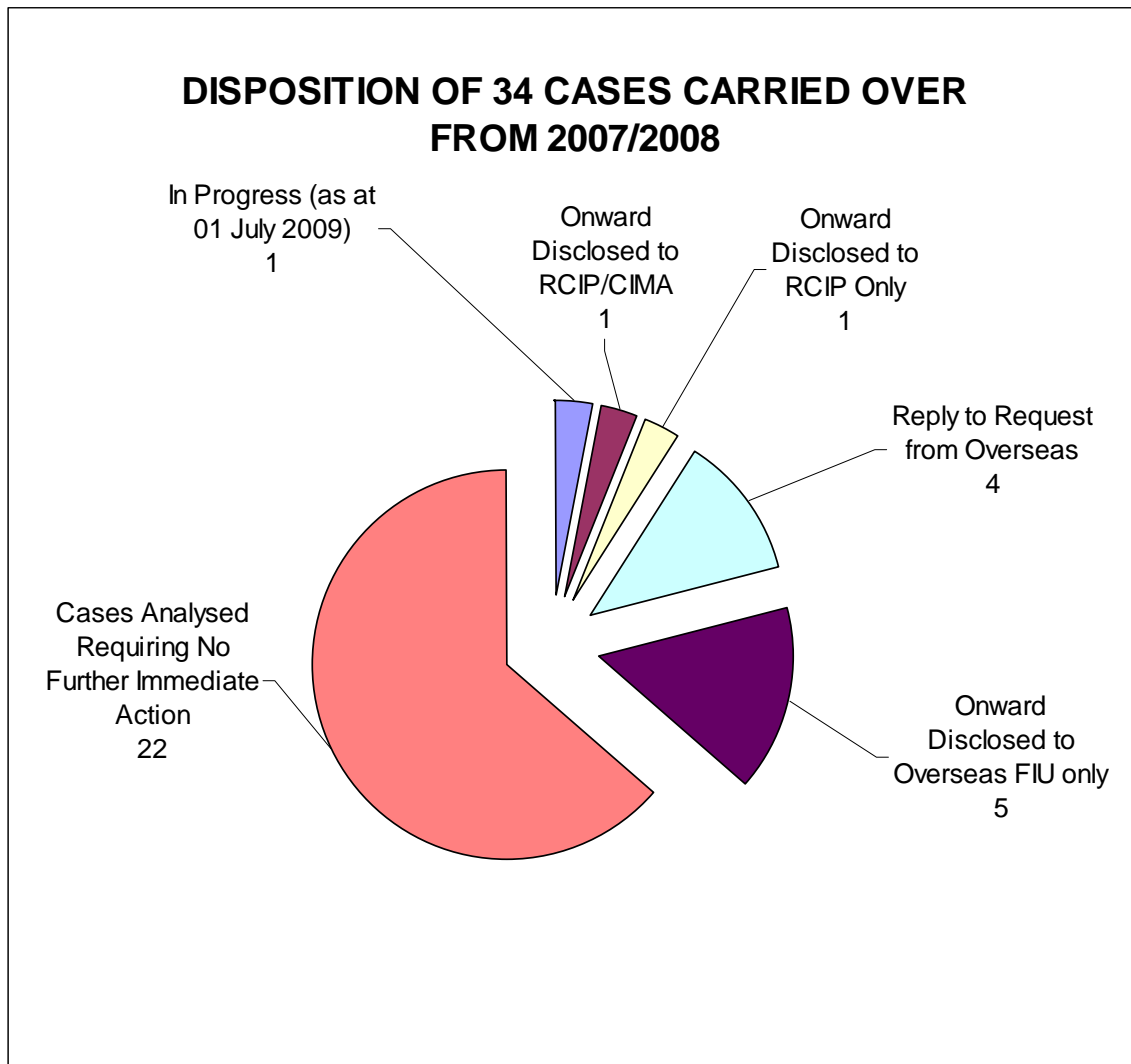
than one overseas FIU because of the multi country activities of the subjects. The greatest number of disclosures was to the United States at 29 an increase of 1 over the previous year followed by the UK with 9 and Brazil and Taiwan each with 6. The following table shows a detailed breakdown.



• **DISPOSITION OF CASES CARRIED OVER FROM 2007/2008**

The following chart illustrates the disposition of the 34 cases carried over from 2007/2008. Of these 34 cases:

- 22 required no further immediate action. The information is stored in our database and monitored for future developments.
- 7 cases were onward disclosed to the appropriate local or overseas agency.
- 4 cases were replies to Requests for Information from overseas FIUs.
- At the end of the year there was 1 case still in progress.



4. Strategic Priorities: 2009/2010 Building on Strengths

THE YEAR AHEAD

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

1. PROACTIVE OUTREACH PROGRAM

Priorities: To continue proactive outreach to domestic service providers.

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

2. CAPACITY BUILDING

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

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

In this context and in light of the training assistance rendered to the Montserrat FIU during the course of the year, we will continue to assist our regional counterparts with training opportunities within our unit to benefit from our expertise. We, in turn, can benefit from having dialogue as well as sharing our ideas with a view to further enhancing our analytical processes.

3. ENHANCE REPORTING OF INFORMATION

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

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

A web site has been developed to provide public access to information on the work of the FRA whilst providing links to legislations related to AML/CFT and other related information. It is envisaged that the web site will accommodate electronic reporting in the future.

4. PRODUCE INSIGHTFUL AND RELEVANT INTELLIGENCE REPORTS

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

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

5. APPROPRIATE DISSEMINATION OF INTELLIGENCE

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

We shall strive to obtain feedback from our disclosures both locally and overseas to measure our contribution to the fight against money laundering and terrorism financing.

The FRA will continue to strengthen ties with overseas FIUs and other international partners and share its expertise where possible.

CONTACT INFORMATION

Address

Financial Reporting Authority
80E Shedden Road
3rd Floor, Elizabethan Square, Phase IV
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