

# AML Supervision Themes 2020

## Contents

Introduction .....	1
Screening.....	2
Monitoring .....	3
Client Risk Assessment (“CRA”) .....	3
Remediation Plans .....	3
Business Risk Assessment .....	3
Suspicious Activity Reports (“SARS”) .....	3
SDD/Reliance.....	3
Written Controls (“P&P”).....	3
Country Risk Assessment .....	4

## Introduction

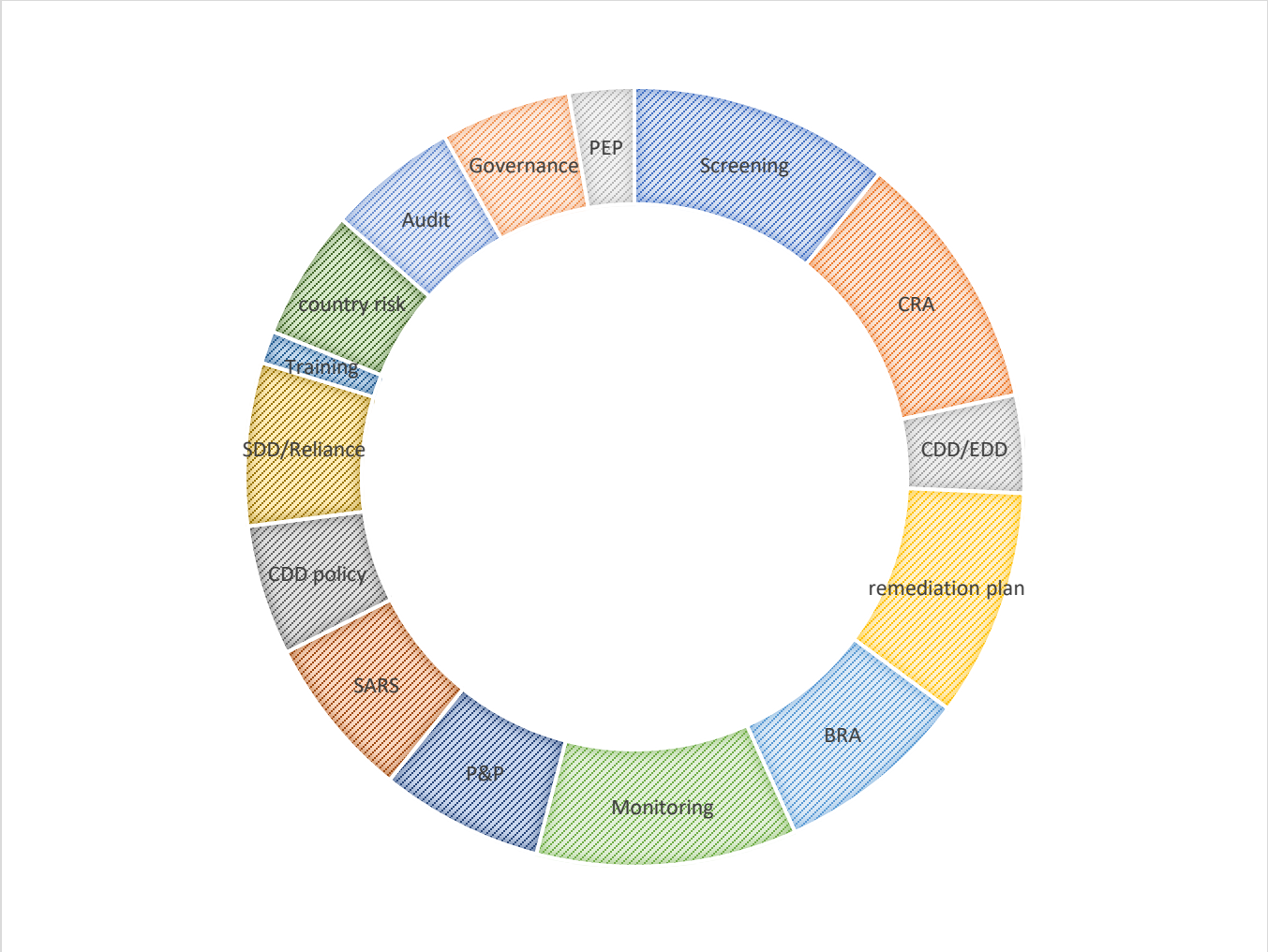
As the AML Supervisory Authority for accounting firms, CIIPA continued its monitoring in 2020. This included a second and third round of on-site inspections and continuing off-site monitoring.

This document outlines key themes and findings arising from the monitoring process.

Fourteen firms were inspected in 2020, three of which were accounting firms engaged in relevant financial business because of their handling of transactions for clients and 11 were firms engaged as liquidators of entities. Twelve of the inspections were conducted remotely due the restrictions imposed in the Cayman Islands in response to the COVID-19 global pandemic.

There were 73 findings across the 14 inspections which considered as an average per firm (5.21) is slightly higher than for the 2019 inspections (3.875).

The findings across the Firms can be grouped as follows to indicate the more common:



Explanation and context for the more common findings is presented below:

**Screening**

Screening was a common finding in 2019 and this trend continued into 2020. Screening entails use of either an inhouse or third-party automated system or a process to conduct searches against sanctions lists at various frequencies or following prescribed triggers (which may be adequate where there are low volumes of transactions or clients). The objective is to identify whether a client or assets held are subject to targeted financial sanctions. But screening may also be conducted to identify PEPs and other risk indicators.

All firms were conducting screening; however, findings arose because it was not conducted consistently, there were errors in inputting, it was not recorded, it was not conducted at the correct time or it was conducted on clients (owners and controllers) but not on transactions involving third parties.

Some firms also needed to be clear in their written controls of need to freeze and report if assets belong to a sanctioned person.

## Monitoring

In liquidations official appointments make the performance of CDD difficult prior to appointment but the key in those engagements is to apply controls to the movement of funds, when the firms may be used for money laundering, terrorist financing or proliferation financing. It may be evident who 'stakeholders' are but until claim established, this is not certain therefore the risk cannot be assessed definitively until then. Thus, the client risk assessment should be (re)conducted once the claim is established and CDD and then screening (re)conducted. For other activity such as sales of assets and share transfers the risk should be considered and this can be part of the usual work of the liquidator done to discharge its responsibilities.

## Client Risk Assessment ("CRA")

The third most common finding was weak or non-existent client risk assessments. CRAs are weak if performed without reference to the factors prescribed in the Regulations or meaningful reference to the facts at hand. This is a foundational step in order to determine the CDD and monitoring required.

## Remediation Plans

This requirement arose primarily because of another requirement e.g. CRA or CDD, but, firms may need to adopt a remediation plan to make all accounts compliant not only in response to CIIPA requirements, but also where there is a change in the Regulations or the firm's risk assessments or controls.

## Business Risk Assessment ("BRA")

A number of firms were not aware of the need to consider the risk specifically in relation to ML, TF or PF within the firm as a whole. A number of firms had adopted statements that failed to take into consideration TF and PF. Some firms had not referred to their aggregate client risk or their services in the business risk assessment. The provision in the Regulations requiring firms to consider geographical or country risk was amended in February 2020 with a transitional period to August 2020 (see below) but some firms had not adequately factored geographical risk in their BRA per the Regulations in effect prior to the amendment.

## Suspicious Activity Reports ("SARS")

There is no benchmark to determine an anticipated ratio of SARS to client engagements but CIIPA expected a higher number in official liquidations and some voluntary liquidations where fraud may have occurred ([SEE NOTICE ON SARS](#)). CIIPA reviewed sample SARs and had findings where firms failed to consider risk factors that indicated the transaction was unusual, did not file as the potential subject was not a client or was awaiting a response to a query placed with the Financial Reporting Authority. CIIPA also required one firm to conduct training to clarify that reports must be filed on subjects other than clients and another to extend its reporting procedure to agents including direct reporting to the police where appropriate.

## SDD/Reliance

In five liquidation firms, reliance was placed on either a joint liquidator or a fund administrator to conduct CDD, screening or monitoring in relation to distributions without a formal risk assessment or controls as required by Regulation 24 or 25.

## Written Controls ("P&P")

There were some instances where the requirement was classed as relating to policies and procedures rather than the substantive subject areas i.e., they related to form rather than substance. For example,

where there were no written procedures, but controls were applied in practice or the written controls did not reflect those controls in practice.

### Country Risk Assessment

Country risk assessment requirements of the Regulations were amended in February 2020, ([COUNTRY RISK ASSESSMENT HELPSHEET](#)) but as a transitional provision applied to August 2020, there were less findings here than would have been the case had the provision been in effect. Country risk is important to both Business Risk Assessments and Client Risk Assessments.

Some firms take a *case-by-case* approach for Country Risk Assessment which may be suitable in smaller firms where the second line (compliance) has time to consider each case. It is relatively straightforward and objective to determine high risk countries, but lower risk requires additional work and consideration which must be carefully documented.

CIIPA plans to conduct off site monitoring in 2021 regarding all firms' policies and how the country risk assessment requirement has been implemented.