

# LEGAL UPDATE

## THE CAYMAN ISLANDS' ANTI-MONEY LAUNDERING REGULATIONS (2018 REVISION) – HOW WILL IT AFFECT CAYMAN FUNDS?

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### Introduction

The Anti-Money Laundering Regulations (2018 Revision) of the Cayman Islands (**AML Regulations**), have expanded the scope of Cayman Islands anti-money laundering regime ("**AML**") significantly, including its application to investment funds generally, and specifically to (i) private equity funds and other closed-ended funds (e.g. venture capital and real estate funds) which are not registered with the Cayman Islands Monetary Authority ("**CIMA**").

The AML Regulations have introduced a new risk-based approach to AML in the Cayman Islands, including requiring persons subject to the AML Regulations including Cayman Islands investment funds to take steps appropriate to the nature and size of their business to identify, assess, and understand its money laundering and terrorist financing risks in relation to each investor, the country or geographic area in which each investor resides or operates, the types of individuals/entities that make up the investor base of the investment fund, source of funds (e.g. investment funds with lower minimum investment thresholds might pose a greater risk of money laundering, especially if the subscription proceeds are not coming from a regulated financial institution), and redemption terms.

Going forward all non-CIMA registered and unregulated investment funds will be required to comply with the same AML regime as CIMA registered and regulated funds.

### Designated AML Officer Roles

Pursuant to regulations 3(1) and 33 of the AML Regulations, a Cayman domiciled investment fund must designate a natural person, at managerial level, to act as its Anti-Money Laundering Compliance Officer ("**AMLCO**"), Money Laundering Reporting Officer ("**MLRO**") and Deputy Money Laundering Reporting Officer ("**DMLRO**"). CIMA requires that a person acting as MLRO / DMLRO must (i) act autonomously; (ii) be independent (have no vested interest in the underlying activity of the investment fund); and (iii) have access to all relevant material in order to make an assessment as to whether an activity is or is not suspicious. The AMLCO role should be performed by someone at management level, who will be the point of contact with the supervisory and other competent authorities.

CIMA Guidance to the AML Regulations requires that an AMLCO must be a person who is fit and proper to assume the role and who:

- i. has sufficient skills and experience;
- ii. reports directly to the Board of Directors ("Board") or equivalent;
- iii. has sufficient seniority and authority so that the Board reacts to and acts upon any recommendations made;

- iv. has regular contact with the Board so that the Board is able to satisfy itself that statutory obligations are being met and that sufficiently robust measures are being taken to protect the Fund against money laundering/terrorist financing risks;
- v. has sufficient resources, including sufficient time and, where appropriate, support staff; and
- vi. has unfettered access to all business lines, support departments and information necessary to appropriately perform the AML/CFT compliance function.

### Expanded AML Procedures

In addition to having the AMLCO, MLRO, and DMLRO officers in place, investment funds are required to have the following AML procedures in place:

- i. identification and verification (KYC) procedures for its investors/clients;
- ii. adoption of a risk-based approach to monitor financial activities;
- iii. record-keeping procedures;
- iv. procedures to screen employees to ensure high standards when hiring;
- v. adequate systems to identify risk in relation to persons, countries and activities which shall include checks against all applicable sanctions lists;
- vi. adoption of risk-management procedures concerning the conditions under which a customer may utilize the business relationship prior to verification;
- vii. observance of the list of countries, published by any competent authority, which are non-compliant, or do not sufficiently comply with the recommendations of the Financial Action Task Force;
- viii. internal reporting procedures (involving the MLRO and DMLRO); and
- ix. such other procedures of internal control, including an appropriate effective risk-based independent audit function and communication as may be appropriate for the ongoing monitoring of business relationships or one-off transactions for the purpose of forestalling and preventing money laundering and terrorist financing.

### **When will the new changes apply to non-CIMA registered and unregulated investment funds?**

In order to allow non-CIMA registered unregulated investment entities (e.g. closed-ended funds such as most private equity funds, venture capital funds, and real estate funds) not previously subject to the AML regime time to implement appropriate procedures (or delegation arrangements) to be in compliance with the new AML regime, **the AML Regulations have been amended to provide these entities up until 31 May 2018 to assess their existing AML/CTF procedures and to implement policies and procedures which are in compliance with the AML Regulations.**

**The deadline to designate an AMLCO, MLRO, and DMLRO and to notify CIMA of the identity of such persons holding these roles is on or before 30 September 2018 for existing funds.**

### **What do managers of Cayman Funds need to be aware of, in particular those managing funds not previously registered with CIMA?**

A Cayman Fund that is already registered with and regulated by CIMA will typically have delegated the maintenance of AML procedures on behalf of the Fund to a Fund Administrator, and should therefore check that the scope of its current delegation to its Administrator is sufficiently broad to

cover the requirements of the AML Regulations (e.g. check (i) whether the AML regime being applied in respect of the Fund is the Cayman AML regime or the regime of jurisdiction recognized as having an equivalent AML regime, and (ii) if it is the latter, whether or not the relevant Administrator is actually subject to the AML regime of that jurisdiction<sup>1</sup>).

Non-CIMA registered investment funds which now fall under the new AML regime and which have delegated maintenance of AML procedures on behalf of the Fund to a Fund Administrator should also check that the scope of delegation to its Administrator or investment manager is sufficiently broad to cover the requirements of the AML Regulations. Investment entities which have not appointed a Fund Administrator (e.g. because the investment manager maintains the AML procedures on the Fund's behalf) should check the same matters outlined above and additionally, whether or not the delegate (e.g. the investment manager) has the requisite personnel (in terms of numbers, training, and experience) to maintain the AML procedures on the Fund's behalf. The extent to which (i) the maintenance of AML procedures on behalf of the Fund, and (ii) the designation of AMLCO, MLRO, and DMLRO functions, can be delegated to a third party service provider should also be considered within the context of CIMA's guidance on outsourcing.

## Enforcement

The Monetary Authority Law (2018 Revision) gives CIMA the power to impose administrative fines for non-compliance on entities and individuals who are subject to Cayman Islands regulatory laws and/or the AML Regulations.

For a breach prescribed as minor fine would be CI\$5,000 (approximately US\$6,000). For a breach prescribed as minor the Authority also has the power to impose one or more continuing fines of CI\$5,000 each for a fine already imposed for the breach (the "initial fine") at intervals it decides, until the earliest of the following to happen:

- (a) the breach stops or is remedied;
- (b) payment of the initial fine and all continuing fines imposed for the breach; or
- (c) the total of the initial fine and all continuing fines for the breach reaches CI\$20,000 (approximately US\$24,000).

For a breach prescribed as serious, the fine is a single fine not exceeding: (a) CI\$50,000 (approximately US\$61,000) for an individual; or (b) \$100,000 (approximately US\$122,000) for a body corporate. For a breach prescribed as very serious, the fine is a single fine of not exceeding: (a)

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Sections 3.61 and 3.62 of the CIMA Guidance on AML/CTF makes it clear that where a Cayman investment entity delegates AML/CTF compliance procedures to a delegate and that delegate is located in a jurisdiction with an equivalent AML/CTF and is subject to the anti-money laundering regime of that jurisdiction, CIMA will regard compliance with the regulations of such jurisdictions as compliance with the AML Regulations and Guidance Notes.

CI\$100,000 (US\$122,000) for an individual; or (b) CI\$1,000,000 (US\$1,220,000) for a body corporate.

For specific advice on the Cayman Islands' Anti-Money Laundering Regulations, please contact any of:

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