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Dear Minister Panton,

Thank you for your letter of 8 July 2014 to our Chairman, John-Griffith-Jones, regarding the inclusion of the Cayman Islands on the FCA's Financial Crime High Risk Country List. John has asked me to reply. Kindly note that I have sent a similar letter to Mrs Cindy Scotland, Managing Director of the Cayman Islands Monetary Authority, following her letter of 30 July.

Please allow me to clarify the purpose of our list. Inclusion of a country on this list does not imply that we consider that its authorities do not take seriously their responsibilities to combat money laundering or other financial crimes. It also does not imply that the authorities do not recognise their obligations stemming from relevant international standards. Indeed, there are a high number of countries that feature on it, 95 currently.

The list serves to provide us with a guide to countries who may pose risks to our remit to tackle financial crime including money laundering. These responsibilities are an integral element of our statutory duties as a financial regulator. The list is one of a number of tools utilised by our Authorisations division to help inform the effective assessment and processing of applications from firms. It does not serve to exclude firms operating from, or being active in, the jurisdictions that feature on it.

We acknowledge the steps that the Cayman Islands has taken in order to improve the robustness of its money laundering regulation in recent years. We also note initiatives such as the recent consultation on a public database on beneficial ownership of

Cayman Islands-Registered Companies¹. To our knowledge, the Ministry has yet to announce whether or not to proceed with such a public database.

We have carefully considered the contents of your letter, in particular your comment that the Cayman Islands does not feature on all the indices we study when assessing country risk. At present, we have concluded that the Cayman Islands should remain on the list. In reaching this decision, we took account of factors including those indices and a range of publicly available information which indicates high levels of money laundering risk remain and potential weaknesses in the Cayman Islands' AML framework.

We note that the U.S. Senate Sub Committee report vulnerabilities to money laundering, drugs and terrorist finances alleges that Cayman Island legal entities have been used as vehicles for money laundering². This is echoed in the US Homeland Security Report *U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing*, which references US dollar accounts in the Cayman Islands which were used for money laundering³. We also note that the U.S. State Department report on narcotics control which lists the Cayman Islands as a jurisdiction of primary concern, particularly in light of the size of its financial sector⁴.

In common with all other countries assessed, we also considered the size of the Cayman Islands' economy and financial markets. This is because we consider that the size of a country's financial sector is correlated to risk as the larger the financial sector, the greater the risk that it will be used to facilitate money laundering. As you can appreciate, we are unable to comment on the risk status of other jurisdictions.

As with our wider regulatory and supervisory responsibilities, we take our financial crime responsibilities extremely seriously and we will continue to use a variety of open source information to help us make balanced decisions. We apply this approach to all jurisdictions, whether they are included in our list or not.

Transparency is at the heart of the FCA's approach and we are committed to disclosing information in a way that can be clearly understood. As such, our financial crime high risk country list, together with an explanation of how we compile and use the list, is now live on the FCA external website:

<http://www.fca.org.uk/about/what/protecting/financial-crime/high-risk-country-list> .

¹<http://www.caymanfinance.gov.ky/pls/portal/docs/PAGE/PRUHOME/LIBRARY/PUBLICATIONS/BENEFICIALOWNERSHIPCONSULTATIONDOCUMENT/CAYMAN%20ISLANDS%20PUBLIC%20CONSULTATION%20ON%20BENEFICIAL%20OWNERSHIP%20-%2025%20NOVEMBER%202013.PDF>

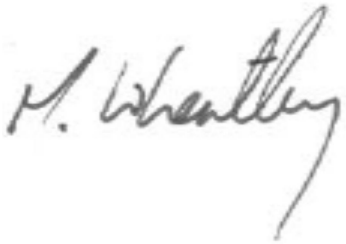
² <http://www.hsgac.senate.gov/subcommittees/investigations/hearings/us-vulnerabilities-to-money-laundering-drugs-and-terrorist-financing-hsbc-case-history>

• ³ REPORT: U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History (2.38 MB)

⁴ http://www.state.gov/j/inl/rls/nrcrpt/2013/vol2/204065.htm#Cayman_Islands

Our list will be periodically reviewed in light of legislative and regulatory developments within the jurisdictions concerned.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Wheatley". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Martin Wheatley

Chief Executive

Cc: Parliamentary Under- Secretary of State for Foreign and Commonwealth Affairs,
James Duddridge, MP