



SIBL EXCLUDED PERSONS RISK ASSESSMENT

Definition of SIBL Excluded Person

- Schedule 4 of the Securities Investment Business Law (as revised)(SIBL) captured persons conducting activities under any of the following circumstances that were exempted from the requirement to obtain a licence but that were required to be registered under the SIBL:
 - A company within a group of companies carrying out securities investment business exclusively for one or more companies within the same group;
 - A person carrying on securities investment business exclusively for: (1) a sophisticated person, (2) a high net worth person, or (3) a company, partnership or trust, whether or not regulated as a mutual fund, of which the shareholders, unit holders or limited partners are one or more such sophisticated person or high net worth person; and
 - A person regulated in respect of securities investment business by a recognised overseas regulatory authority in the country or territory (other than the Islands) in which the securities investment business is being conducted.

Timelines

- **2015** – The Cayman Islands' first National Risk Assessment (NRA) of ML/TF risks identified activities that were required to be supervised for AML/CFT purposes, including SIBL Excluded Persons (SIBL EPs).
- **2017** – A mutual evaluation assessment conducted by the Caribbean Financial Action Task Force (CFATF), against FATF standards on AML/CFT, confirmed the findings of the NRA in respect of the AML/CFT risks and vulnerabilities of the SIBL EPs and also recommended, as an action point, enhanced AML/CFT supervision for the sub-sector .
- **2019** – Legislative changes made bringing SIBL EPs under full AML/CFT supervision and a comprehensive AML/CFT risk assessment conducted for SIBL EPs in respect of their structure, products and services, clients and customers, geography and delivery channels.

SIBL Registered Persons

- Effective 15 January 2020, the SIBL EP regime ceased to exist.
- Entities that previously qualified as SIBL EPs must now re-register with the Cayman Islands Monetary Authority (CIMA) as a Registered Person (SIBL RPs).
- Amendments to the SIBL permit CIMA to exercise AML/CFT/CPF supervision of SIBL RPs, similar to the supervision of SIBL licensees, including fitness and propriety checks and onsite inspections.
- In the re-registration process and at the time of the registration of a new SIBL RP, CIMA verifies the fitness and propriety of directors, shareholders and beneficial owners of applicants. Any changes to this information must be advised to CIMA on an ongoing basis.

Securities Investment Business – Excluded Persons Risk Assessment 2019



RISK CATEGORIES:

- Size, nature and complexity (structural)
- Clients/customers
- Transactions, products and services
- Delivery/distribution channels
- Geography

Securities Investment Business – Excluded Persons Risk Ratings and Ratings Scale



Structural Risks	High
Customer Risks	Medium-high
Product/Service Risks	Medium-high
Delivery Channel Risks	Medium-high
Geographic Risks	Medium-low
Overall	Medium-high

low	0 - 10%;
medium-low	11 - 30%;
medium-high	31 - 60%;
high	61% or more;

Structural Risks – HIGH

FACTORS CONSIDERED:

- Value of assets under management
- Volume of transactions executed
- Volume of international transactions
- Number of clients/customers
- Physical presence
- Parent company, affiliate or subsidiary in high risk jurisdiction(s)
- Principal place of business in high risk jurisdiction(s)

Conclusion: Most SIBL EPs (93%) fell into the higher risk category.

Customer Risks – MEDIUM HIGH



FACTORS CONSIDERED:

- Type of client/customer (risk profile ex. Trust, high net worth (HNW) or sophisticated individuals, politically exposed persons (PEPs) or nominees)
- Clients/customers from high risk jurisdictions
- Number of clients/customers from high risk jurisdictions as a percentage of total

Conclusion: 12% of clients/customers of SIBL EPs were higher risk – i.e. HNW, PEPs and higher risk jurisdictions. 58% of clients/customers of SIBL EPs are medium high risk – i.e. corporates, trusts, nominees, special purpose vehicles or non-profit organizations.

Transactions/Products and Service Risks

MEDIUM HIGH

FACTORS CONSIDERED:

- Complexity, liquidity and volatility of products offered
- Type of service(s) offered (broker-dealer, market maker, securities manager, securities arranger and/or securities advisor)
- Forms of payment accepted
- Client/customer onboarding and interaction (face-to-face vs. non face-to-face)

Transactions/Products and Service Risks (cont'd)

MEDIUM HIGH

Higher risk products:

- options, futures and contracts for differences.
- 55% of SIBL EPs offer at least one of these products.

Medium-high risk products:

- Instruments creating or acknowledging indebtedness or giving entitlements to securities, and certificates representing certain securities.
- 25% of SIBL EPs offer these products.

Higher risk services:

- Broker dealer;
- Market maker;
- Securities Manager (57%)

Medium low risk services:

- 19% Securities Advisor;
- 5% Securities Arranger.

Conclusion: 57% of SIBL EPs engaged in higher risk services with 55% offering higher risk products.

Delivery/Distribution Channel Risks

MEDIUM HIGH

FACTORS CONSIDERED:

- Client/customer onboarding and interaction (face-to-face vs. non face-to-face)
- Use of intermediaries, eligible introducers and/or reliance on third parties.

Conclusion: 90% of clients/customers of SIBL EPs are onboarded via face-to-face interaction; 10% of SIBL EPs reported using third party intermediaries or eligible introducers.

Geographic Risks – MEDIUM LOW

FACTORS CONSIDERED:

- Clients/customers based in/controlled or owned by persons from high risk jurisdictions
- Transactions coming from/going to high risk jurisdictions
- Large international client/customer base

Conclusion: SIBL EPs were used by persons/had clients or customers from all over the world but predominantly China/Hong Kong, the United States, the United Kingdom and the Cayman Islands.

Mitigating Measures 2020 Onward

- Cancellation of registrations of Excluded Persons, effective 15 January 2020, who have not submitted an application to re-register as a SIBL RP.
- Re-registration of those SIBL EPs applying as at 15 January 2020, who will now be subject to a higher degree of supervision under the new SIBL RP framework.
- On-site inspections, AML audits, F&P assessment of directors, shareholders and beneficial owners, imposition of conditions as necessary, enforcement actions, regulatory reporting will be some of the supervisory tools utilized.
- Continue review and amendments, as necessary, to the regulatory laws, rules and policies arising from the Mutual Evaluation Report and CIMA's ongoing assessment.



THANK YOU!



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