



CAYMAN ISLANDS  
GOVERNMENT

## Ministry of Finance Financial Services Secretariat

# Fact Sheet / Backgrounder

## Financial Services Regulation in the Cayman Islands

While the financial services chapter of Cayman's history dates back 40 years, the seeds of it were sown as early as the 1700s: two important legacies of history remain from that era – English common law and tax neutrality<sup>1</sup>. The Cayman Islands has always been an open, free market, economy, and from the 1960s onwards, successfully invested its "historic capital" to the benefit of the financial services sector.

In the space of 40 years, the Cayman Islands has established itself as a mature, sophisticated international financial services centre, providing institutionally-focused, specialised services to a global client base. Cayman's main industry sectors include banking, investment funds, captive insurance, companies and partnerships, trusts, structured finance, vessel and aircraft registration and the Cayman Islands Stock Exchange, and has significant market share in a number of these areas. The sector currently accounts for an estimated 30 per cent of GDP and 21 per cent of the labour force. Many of the market participants are branches or subsidiaries of established international institutions.<sup>2</sup>

The Cayman Islands' competitive strength in global financial services lies in its ability to provide an effective and cost-efficient tax neutral platform for international capital flows. Cayman offers a 'one-stop-shop' for clients, supported by an excellent professional infrastructure in an environment of economic and political stability.

Stability, integrity and quality are important to Cayman as a global provider of financial services. It has been decidedly Cayman's experience that adherence to recognised and relevant international standards – **not** absence of regulation – fuels sustainable growth of the sector. The Cayman Islands puts a premium on promoting commercial certainty for clients around the world. As concluded by *The Economist*, "well-run jurisdictions of all sorts, whether nominally on- or offshore, are good for the global financial system."<sup>3</sup>

The government takes a principled and pragmatic approach to maintaining Cayman's position as a leading financial services center. In terms of principle, the 'operating manual' is based on adherence to relevant international standards; respect for the rule of law, due process and the right to privacy; progressive reinforcement of Cayman's international cooperation channels; and constructive engagement on international issues affecting the provision of cross-border financial services, based on a level playing field.

<sup>1</sup> Cayman has never had a system of direct taxation and instead employs an indirect, consumption-based taxation system.

<sup>2</sup> This is particularly the case in the banking sector; and all such banks are required to obtain approval of their home regulator for their Cayman operations, as well as confirmation of consolidated supervision arrangements.

<sup>3</sup> Survey on Offshore Financial Centres, *The Economist*, February 24, 2007.



The pragmatic angle on these principles is that they promote commercial certainty and control reputation risk for global clients. The Cayman Islands fully understands and accepts that operating a financial services centre involves serious obligations, such as doing our part in the fight against international financial crime – recognizing that these obligations are not static due to evolution of international standards and the business itself.

## Cayman’s Financial Services Regulator – The Cayman Islands Monetary Authority



The Cayman Islands Monetary Authority (CIMA) was established in 1996 and has direct responsibility for all licensing and enforcement activity. Approximately 25 per cent of the licensing/registration revenue collected is re-invested into the Authority’s operations, equating to \$15 million in the 06/07 fiscal year, demonstrating the importance with which the Authority’s functions are regarded. Key features of the regulatory regime include:

- **Observance of recognized and relevant international standards** – Basel, IAIS and IOSCO core principles; FATF 40+9; IOSCO member since June 2008.
- **Application of statutory ‘fit and proper’ criteria to market participants** – at entry and as an ongoing activity, CIMA performs due diligence on all directors, major shareholders, and senior officers of licensees.
- **International cooperation** – The Authority has a statutory obligation to provide assistance to overseas counterparts. Since 2000, CIMA has handled more than 990 requests for assistance from overseas regulatory authorities. While not a prerequisite to the provision of assistance, CIMA has 18 MoUs and other information-exchange agreements with financial regulators in Brazil (CVM), Jersey, Canada, U.S. (the Securities and Exchange Commission and the Commodity Futures Trading Commission), U.K. (the Financial Services Authority), Isle of Man, Bermuda, Jamaica, Malta and Panama. CIMA also has a MoU with the International Organisation of Securities Commissions, an MoU with the Brazil Central Bank, a multi-lateral MOU with eight Caribbean regulators and agreements with 4 US banking regulators.

### CIMA Memberships in Regulatory & Standard-Setting Bodies

- International Organisation of Securities Commissions
- Offshore Group of Banking Supervisors (OGBS)
- Caribbean Group of Banking Supervisors (CGBS)
- Association of Supervisors of Banks of the Americas (ASBA)
- International Association of Insurance Supervisors (IAIS)
- Offshore Group of Insurance Supervisors (OGIS)

### International Standards Observed

- Financial Action Task Force 40 Recommendations on Money Laundering and IX Special Recommendations on Terrorist Financing
- Basel Core Principles for Effective Banking Supervision
- Trust and Company Service Providers Working Group Statement of Best Practice (OGBS)
- Core Principles of Insurance Regulation (IAIS)
- Core Principles for Securities Regulation (IOSCO)



An International Monetary Fund (IMF) assessment of financial regulation in the Cayman Islands published in 2009 found as follows:

- **Overall** – “...There is a strong compliance approach in the Cayman Islands. CIMA’s supervisory regime is comprehensive and incorporates on-site and off-site functions utilising a risk-based supervisory approach and techniques.”
- **Banking** – “...the new BCP [Basel Core Principles] methodology places greater emphasis...to ensure full due diligence is conducted by banks. There have been useful recent changes to guidance notes that emphasise the importance of full due diligence is applied...”
- **Insurance** – “...the presence of...professional intermediaries ...have contributed to the development of the Cayman Islands as a leading captive insurance centre. The efficiency of supervision has been enhanced through a formalized regulatory handbook...”
- **Investment Funds and Securities** – “...regulatory framework for the investment funds and securities market exhibit high levels of implementation of the IOSCO Principles. The financial sector is serviced by a sophisticated and well-developed service provider structure.”

The full IMF reports can be accessed on [www.imf.org/external/pubs/ft/scr/2009/cr09323.pdf](http://www.imf.org/external/pubs/ft/scr/2009/cr09323.pdf).

For more information

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