



# CAYMAN ISLANDS MONETARY AUTHORITY

## **MEDIA RELEASE**

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### **IMF Cayman Islands Assessment Report Released: Substantial progress noted; recommendations focus on risk mitigation**

(GRAND CAYMAN, Wednesday, 9 December 2009) The International Monetary Fund (IMF) has released the report of its 2009 assessment of the supervision and regulation of the Cayman Islands financial sector, noting the jurisdiction's "substantial progress" in implementing the recommendations arising from the Fund's 2003 assessment.

Progress areas identified include changes to legislation, rules and guidance to meet international standards; increases in the Cayman Islands Monetary Authority's (CIMA) independence, resources and efficiency, as well as increased transparency of the funds sector arising from the implementation of CIMA'S electronic reporting system. The report makes recommendations for enhancements in 10 areas (see below) but acknowledges that these recommendations "are broadly consistent with the priorities already identified by the authorities and in most cases where policy action is already underway."

The report is based mainly on information obtained during the IMF's 2 to 13 March mission to Cayman, and on subsequent consultations with CIMA. The mission's purpose was to review developments in Cayman's supervisory and regulatory framework since the first assessment in October 2003. These jurisdictional reviews are part of IMF's offshore financial sector assessment programme.

Given the global financial crisis, a major new focus of the mission during this year's assessment was risk identification and mitigation. The recommendations emphasize these aspects as part of the strengthening of Cayman's regulatory and supervisory system, while recognizing that it "has important elements of an effective crisis management framework".

The report assesses CIMA's powers, resources, and risk management framework; the supervision and regulation of banking, insurance, and investment funds and securities (including the role of the Cayman Stock Exchange), and comments on the private sector pension system. The document also summarises the findings of the Caribbean Financial Action Task Force's 2007 review of Cayman's regime for anti-money laundering and combating the financing of terrorism.

Premier, the Hon. McKeever Bush, OBE, JP, said the Government welcomes the report: "Once again we have an external assessment that gives evidence of this jurisdiction's commitment to providing sound regulation in line with the best international standards. We voluntarily participated in this assessment and welcome any others that are objective as we are confident that our financial industry and the supervisory regime can stand up to any scrutiny. The Government broadly accepts the recommendations and it is our intention to give priority to implementing them in a timely manner, as far as best serves this jurisdiction and contributes to the stability of the global financial system."

CIMA's Chairman, Mr. George McCarthy, said the report "reflects the high standards that CIMA strives to meet and the seriousness with which the Authority takes its role. I congratulate the management and staff on the strides that have been made in improving CIMA's supervision and regulation since the last review and their professionalism in liaising with the IMF to conduct this update assessment. As the report shows, there is no room for complacency, as we recognize the importance of the industry we regulate."

Mrs. Cindy Scotland, Managing Director of CIMA, agreed: "International regulatory and supervisory standards change as global financial business evolves and as new risks emerge. As regulator, we always have to be doing our own assessments and adjustments and engage our regulatory counterparts, industry, and international standard setters to ensure we keep abreast and contribute to these developments. I therefore find the IMF's recommendations very valuable."

The main recommendations contained in the IMF report are:

- **Independence.** Strengthen the legislative structure for the independence of CIMA, beginning with passage of the pending draft amendments to the MAL [Monetary Authority Law].
- **Risk-based approach to supervision.** Conduct formal risk assessment and focus CIMA's supervisory efforts more directly on the key risks facing the jurisdiction such as operational and reputation risk.
- **Reliance model.** Formalize and validate the assumptions underlying CIMA's supervisory approach that relies on the strength of supervision applied elsewhere and the contribution of licensees and other domestic professionals to the oversight of financial intermediaries.
- **Consolidated supervision.** Formulate a robust framework for supervising licensees cross-border and cross-sectorally to help prevent regulatory arbitrage or supervisory gaps.
- **Contingency plans.** Draw up contingency plans to handle the failure of important institutions.
- **Systematic sanctions.** Make CIMA's enforcement powers consistent across all administered legislation and set the monetary penalties high enough to make them effective and dissuasive.
- **Resources/Capacity.** Review the human resource budgeting policy and reassess the process regularly to ensure the continued adequacy and quality of regulatory resources.
- **Best practices.** Monitor international developments to ensure that the regulatory regime in the jurisdiction incorporates elements of international best practice as it evolves.
- **Reporting and disclosure.** Enhance regulatory reporting and disclosure requirements of financial entities.
- **Insurance.** Implement a risk-based solvency regime for the insurance industry. (A draft Insurance Law has been prepared aiming to address this issue.)

The report is available on CIMA's website at [www.cimoney.com.ky](http://www.cimoney.com.ky), under the tab 'External Cooperation/Assessments'.

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#### **Note to Editors: Background on the offshore financial sector assessment programme**

(Source: [www.IMF.org](http://www.IMF.org) )

In recent years, there has been increased recognition of the need to improve understanding of the activities of offshore financial centers. Some OFCs have captured a significant part of global financial flows, and their linkages with other financial centers creates the potential for their activities to affect financial stability in many countries. In July 2000, the IMF's Executive Board asked staff to extend financial sector work to include OFCs through a voluntary program of assessments and technical assistance. The aim is to help strengthen financial supervision of OFCs, so that international rules and arrangements apply to OFCs to promote greater cooperation among supervisors. To this end, IMF staff undertake detailed assessments of the extent to which OFCs meet the standards advocated by the international standard-setters, and of any further action required to meet these standards.

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