Global Investigations Review

The Guide to Sanctions - Seventh Edition

Cayman Islands sanctions and today's financial services

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In a continuing unsettled geopolitical landscape, sanctions are often the go-to response by many states and are being applied in ever more innovative ways. This naturally creates a host of issues from the perspective of international businesses – and the practitioners who advise them.

Edited by Rachel Barnes of Three Raymond Buildings, Anna Bradshaw of Peters and Peters, Paul Feldberg of Morgan Lewis, David Mortlock of Willkie Farr & Gallagher, Anahita Thoms of Baker & McKenzie and Wendy Wysong of Steptoe, the seventh edition of ***The Guide to Sanctions*** is an invaluable resource that dissects the topic in a practical fashion from every stakeholder's perspective.

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Cayman Islands sanctions and today's financial services

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Summary

WHAT ARE SANCTIONS?

Sanctions are restrictive measures that are put in place by countries, typically acting collectively, by international organisations (such as the United Nations) to fulfil one or more particular purposes. Those purposes commonly include:

- to coerce changes in behaviour;
- to constrain the ability to continue with offensive behaviour;
- to signal disapproval;
- to protect misappropriated assets;
- to prevent terrorism; or
- to maintain or restore international peace and security.

Several types of sanctions may be imposed, including but not limited to, arms embargos, travel bans, financial sanctions and diplomatic sanctions. This chapter focuses on financial sanctions as implemented in the Cayman Islands, together with Cayman-specific reporting, licensing and supervisory requirements.

Financial sanctions may take many forms and are developed in response to a given situation. The types of financial sanctions commonly used are:

- ***asset freezes***: assets of sanctioned individuals or entities are frozen;
- *restrictions*: restrictions may be placed on a wide variety of financial markets and services, and can apply to named individuals or entities, specified groups or entire sectors. These restrictions may include, but are not limited to:
  - investment bans;
  - restrictions on access to capital markets;
  - directions to cease banking relationships and activities;
  - requirements to notify regulators or seek authorisation before certain payments are made or received; and
  - restrictions on the provision of financial, insurance, brokering, advisory services or other financial assistance; and
- *cessation of business*: directions are given to certain individuals, entities or sectors to cease certain types of business entirely.

SANCTIONS REGIMES IN FORCE IN THE CAYMAN ISLANDS

The sanctions regimes in force in the Cayman Islands essentially mirror those imposed in the United Kingdom but with modifications required for domestic implementation, including Cayman-specific competent authority, licensing, reporting and enforcement arrangements. As the Cayman Islands is a British Overseas Territory, sanctions regulations made under the United Kingdom's Sanctions and Anti-Money Laundering Act (the UK Regulations), as amended from time to time, are extended to the Cayman Islands by statutory instrument (Order), with the Order specifying any modifications required for effective domestic implementation.

Once extended to the Cayman Islands under an Order, the UK Regulations have the force of law in the Cayman Islands and all sanctions designations made under UK Regulations and reflected in the Sanctions List (UKSL) now published by the UK Foreign, Commonwealth and Development Office have immediate effect in the Cayman Islands.

The Governor of the Cayman Islands is the competent authority for the implementation of financial sanctions in the Cayman Islands. Pursuant to the Governor's delegation, the Cayman Islands Financial Reporting Authority (FRA) is responsible for carrying out certain functions with respect to the implementation of targeted financial sanctions.

In addition to the designations by the United Kingdom, the Cayman Islands has the capacity to promulgate domestic asset freeze targets and other restrictions pursuant to the Proliferation Financing (Prohibition) Actand the Terrorism Act via FRA directions, acting at the instruction of the Governor. No such domestic directions have been issued.

At the time of writing, the most active sanctions regime imposed by the United Kingdom and implemented in the Cayman Islands has been against Russia, as a response to Russia's full-scale invasion of Ukraine in 2022.

According to an article published by the Cayman Compass in October 2023, more than 40 boats, six helicopters and six aircraft have been deregistered, thanks to Cayman's Russia sanctions task force. Financial institutions also declared about US$8.32 billion and €230.1 million in frozen funds in compliance reporting forms sent to the FRA.[1]

Sanctions issued by the US Department of the Treasury's Office of Foreign Assets Control (OFAC) do not have legal force in the Cayman Islands. However, exposure to OFAC should be assessed as many Cayman Islands structures will have a US nexus; for example, US investors, US custodians or prime brokers, US securities, or transactions cleared through US financial institutions. As a result, US banks and other US intermediaries may apply OFAC sanctions requirements and restrict or block certain Cayman Islands transactions.

WHO DO CAYMAN ISLANDS SANCTIONS APPLY TO?

Cayman Islands sanctions apply to (1) all persons within the territory of the Cayman Islands and (2) all Cayman Islands persons (citizens, nationals and bodies incorporated or constituted under Cayman Islands law), wherever located on the globe, regardless of whether those persons are regulated by the Cayman Islands Monetary Authority (CIMA) or not.

In addition, persons regulated by CIMA are likely to fall within the definition of "relevant firm" for the purposes of sanctions reporting obligations. Such persons are also likely to be subject to obligations under the Cayman Islands' Anti-Money Laundering Regulations-(AMLRs) concerning designated person screening and identification of assets to be frozen.

The penalty for not complying with sanctions obligations is potentially time in prison. Conviction on indictment carries a maximum of seven years' imprisonment, a fine, or both.

Sanctions are one of the most critical regulatory requirements to comply with but often one of the most difficult to show evidence of compliance. The challenge is often how to prove a negative; for example, how do you prove you are not dealing with a sanctioned person's assets or making funds or goods available to a sanctioned person? These are questions addressed below (see "What should you do? – sanctions screening").

CURRENT REGULATORY ENVIRONMENT

The Cayman Islands is actively preparing for the Financial Action Task Force's (FATF) fifth round of mutual evaluation. The inspection will be conducted by the Caribbean Financial Action Task Force (CFATF) in 2027 and will focus on effectiveness.

While the technical compliance aspect of the FATF review considers whether adequate laws and regulations are in place, "effectiveness" considers how well countries are implementing laws, regulations and policies in line with FATF anti-money laundering (AML), counter-terrorist financing (CTF), counter-proliferation financing (CPF) standards, which include standards relating to the United Nations' CTF and CPF sanctions (FATF, Recommendations 6 and 7).

A key effectiveness assessment measure for the FATF is whether a country can demonstrate there have been fines, prosecution and enforcement of the law.

We are seeing increased CIMA activity with respect to inspections of entities that are registered or licensed with CIMA and are undertaking "relevant financial business", as defined in the Proceeds of Crime Act, to assess compliance with AML, CTF, CPF and related sanctions requirements. Other supervisory bodies falling within the FATF-designated non-financial businesses and professions cohort, such as the Cayman Islands Institute of Professional Accountants, conduct similar reviews.

Such inspections seek to demonstrate that the Cayman Islands is effectively enforcing its AML, CTF, CPF and related sanctions laws. However, it is important to reiterate that it is not just those undertaking "relevant financial business" who must comply with sanctions laws; rather, it is persons undertaking relevant financial business who are subject to additional obligations and scrutiny.

UNDERSTANDING SANCTIONS EXPOSURE

The UK Regulations and Cayman Islands sanctions prohibit:

- dealing with "funds" or "economic resources" owned, held or controlled, directly or indirectly, by a person or entity on the UKSL (a Designated Person);
- making funds or economic resources available, directly or indirectly, to, or for the benefit of, a Designated Person; and
- engaging in actions that directly or indirectly circumvent financial sanctions prohibitions, such as:
    - structuring transactions to hide links to Designated Persons;
    - using mixing or tumbling;
    - using layered wallets; or
    - shell companies.

"Funds" is interpreted widely and generally means financial assets and benefits of every kind, including (but not limited to):

- cash, cheques, claims on money, drafts, money orders and other payments;
- instruments;
- deposits with financial institutions or other entities, balances on accounts, debts and debt obligations;

- publicly and privately traded securities and debt instruments, including stocks and shares, certificates representing securities, bonds, notes, warrants, debentures and derivatives contracts;
- interest, dividends or other income on or value accruing from or generated by assets;
- credit, right of set-off, guarantees, performance bonds or other financial commitments;
- letters of credit, bills of lading or bills of sale;
- documents showing evidence of an interest in funds or financial resources;
- any other instrument of export financing; and
- virtual assets (or cryptoassets).

"Economic resources" generally means assets of every kind, whether tangible or intangible, movable or immovable, which are not funds, but may be used to obtain funds, goods or services. These include but are not limited to:

- precious metals or stones;
- antiques;
- vehicles; and
- real property.

DIRECT AND INDIRECT OWNERSHIP OR CONTROL

To assess whether funds or economic resources are owned, held or controlled, directly or indirectly, by a Designated Person, the "UK financial sanctions general guidance" issued by the Office of Financial Sanctions Implementation (OFSI)[2] and the FRA's Financial Sanctions Guidance of December 2021 provide guidance as follows:

> An entity is owned or controlled directly or indirectly by another person in any of the following circumstances:
>
> the person holds (directly or indirectly) more than 50% of the shares or voting rights in an entity
>
> the person has the right (directly or indirectly) to appoint or remove a majority of the board of directors of the entity
>
> it is reasonable to expect that the person would be able to ensure the affairs of the entity are conducted in accordance with the person's wishes

If you know, or there is reasonable cause to suspect, that funds or economic resources are owned or controlled directly or indirectly by a Designated Person, then the funds or economic resources should be frozen and reported to the FRA.

The term "reasonable cause to suspect" refers to an objective test as to whether there were circumstances from which an honest and reasonable person should have inferred knowledge or formed the suspicion. You should not deal with the funds or economic resources or make them available to, or for the benefit of, the Designated Person unless there is an exemption in the legislation you can rely on or you have been issued a licence by the Governor.

With the evolution of technology, artificial intelligence (AI) and automation, in some cases it has become more difficult to identify whether funds or economic resources are owned or controlled directly or indirectly by a Designated Person or whether funds and economic resources are being made available, directly or indirectly, to, or for the benefit of, a Designated Person. In each case, caution needs to be exercised to ensure that sanctions screening can be conducted effectively before transactions proceed.

CAYMAN ISLANDS FUNDS

The Cayman Islands continues to be a leading offshore jurisdiction for the establishment of hedge funds and private equity funds, with a reported 13,008 open-ended investment funds and 17,910 closed-ended investment funds regulated by CIMA as at the end of Q1 2026.[3] We are seeing an increasing number of funds with investment strategies involving virtual assets, in some cases with a concentration in virtual assets of up to 95%.

Recent amendments under the Virtual Asset (Service Providers) (Amendment) Act 2026, the Mutual Funds (Amendment) Act 2026 and the Private Funds (Amendment) Act 2026 clarify that the issuance of a digital equity token or a digital investment token (respectively) by a mutual fund or a private fund in accordance with the Mutual Funds Act and the Private Funds Act (a tokenised fund) does not render a tokenised fund a virtual asset issuer for the purposes of the Virtual Asset (Service Providers) Act (the VASP Act), thus removing potential dual regulation of a tokenised fund under the VASP Act and the funds legislation. This clarification has paved the way for tokenised funds to be established in the Cayman Islands on a commercially certain footing.

As the funds market evolves and (1) the assets in which funds invest become more diverse and (2) shares in funds are tokenised, diligence with respect to sanctions obligations remains paramount. The sanctions screening undertaken needs to be kept under review to ensure it keeps pace with advancements in technology, new asset classes and market practice. Tokenised funds and other structures using blockchain-based ownership records should ensure that sanctions controls are capable of addressing wallet-level risk, secondary transfers, smart contract interactions and indirect exposure through prior transaction history.

Although this chapter focuses on asset-freeze-style financial sanctions, particular Cayman sanctions regimes may also include sectoral restrictions, trade-related restrictions, investment restrictions, restrictions on financial services, insurance, brokering, technical assistance or other prohibitions. Each proposed activity should therefore be checked against the specific sanctions regime applicable (for example, the relevant country, sector or technology). This is especially relevant to investment funds investing in commodities, energy, defence or dual-use technology.

VIRTUAL ASSETS

The VASP Act provides the framework in the Cayman Islands for conducting virtual asset services with respect to virtual assets.

A virtual asset is defined in the VASP Act as:

> a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes but does not include a digital representation of fiat currencies.

The provision of virtual asset services as a business, in or from within the Cayman Islands (which includes the public issuance of virtual assets) is a regulated activity, requiring approval from and supervision by CIMA.

The term "virtual asset service", as defined under the VASP Act, means:

> the issuance of virtual assets or the business of providing one or more of the following services or operations for or on behalf of a natural or legal person or legal arrangement –
>
> 1. exchange between virtual assets and fiat currencies;
> 2. exchange between one or more other forms of convertible virtual assets;
> 3. transfer of virtual assets;
> 4. virtual asset custody service; or
> 5. participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset

Limb (e), above, would include support analogous to underwriting, acting as distributor, market-making etc as obtains on the securities side.

Custodians of virtual assets and virtual asset trading platforms are required to hold a licence issued by CIMA, whereas other virtual asset service providers (VASPs) and virtual asset issuers (where the issuance is a public issuance) require registration only.

The sanctions implications of the Cayman Islands virtual asset regime include the following:

- Virtual assets that constitute "securities" (such as tokenised funds) will be captured by the sanctions definition of "funds".
- Virtual assets that are not "securities" for sanctions purposes will nevertheless almost certainly be "economic resources" for the purposes of the sanctions prohibition against dealing, etc, in the funds or economic resources of a Designated Person.
- Certain VASPs will now be caught within the sanctions definition of "relevant firm" and so will have sanctions reporting obligations.
- There may be aspects of virtual assets that require special consideration or may present particular challenges with respect to screening or detection of Designated Persons for the purposes of complying with the dealing prohibitions and the asset freeze requirement.

It is no longer the case that only the traditional financial services providers such as banks and fund administrators need to be aware of their sanctions obligations. Entities and individuals undertaking virtual asset services, tokenising assets and undertaking decentralised finance activities in the Cayman Islands all need to comply with Cayman Islands sanctions. Furthermore, as the traditional financial markets become less accessible to persons who are subject to sanctions, alternative methods are being used as a means of accessing funds and economic resources – in particular, vigilance is required with respect to virtual assets and decentralised structures.

VIRTUAL ASSETS – DIRECT AND INDIRECT EXPOSURE

Direct exposure to a Designated Person through virtual assets will occur when a person or entity has a clear, identifiable relationship with a Designated Person; for example, an entity transacts with a wallet address owned or controlled by a Designated Person.

Indirect exposure to a Designated Person may occur when virtual assets owned or controlled by a Designated Person pass through several persons or entities, or are mixed or tumbled, making it difficult to trace their origin. Further, the increasing use of AI (and AI agents in particular) will demand increasingly sophisticated and robust sanctions processes and procedures to identify indirect exposure to Designated Persons.

A report issued by OFSI in July 2025, "Cryptoassets: Threat Assessment" (the OFSI Report) notes:

> [I]ndirect exposure to [Designated Persons (DPs)] can occur when:
>
> - A cryptoasset firm receives assets that previously passed through a DP's wallets
> - A cryptoasset firm uses cloud services, software, or hardware from sanctioned jurisdictions
> - Smart contracts interact with exchanges or services in sanctioned jurisdictions
> - Customers of cryptoasset firms use Virtual Private Networks (VPNs) to mask their true location and hide links to DPs
> - Beneficial ownership structures obscure links to DPs
> - Trading systems inadvertently provide liquidity to DPs
> - DPs participate anonymously in Decentralised Finance (DeFi) protocols
> - A nested exchange cluster of deposit / withdrawal wallets sits under one fully verified customer account at a large, regulated cryptoasset exchange. The nested exchange markets itself as an independent service offering quick swaps and minimal [know-your-customer] checks.[4]

WHAT SHOULD YOU DO?

SANCTIONS SCREENING

Sanctions screening involves screening clients (and potentially transaction parties and accounts or wallets) against the UKSL.

As well as the name of the client, screening must include the names of any beneficial owners, controllers and related parties (such as authorised signatories) against the UKSL to ascertain whether there is anyone at the sanctions threshold with ownership or control.

In accordance with the AMLRs, “beneficial owner” means:

> the natural person who ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted and includes but is not restricted to –
>
> 1. in the case of a legal person other than a company whose securities are listed on a recognised stock exchange, a natural person who ultimately owns or controls, whether through direct or indirect ownership or control, 10% or more of the shares or voting rights in the legal person;
> 2. in the case of any legal person, a natural person who otherwise exercises ultimate effective control over the management of the legal person; or
> 3. in the case of a legal arrangement, the trustee or other person who exercises ultimate effective control over the legal arrangement.

Notably, this is a 10% threshold in the Cayman Islands. Once the 10% or more beneficial owners have been confirmed for AMLRs purposes, the entity can consider whether a Designated Person owns or controls the entity for sanctions purposes. The ownership limb generally refers to a person holding, directly or indirectly, more than 50% of the shares or voting rights, but control may also be exercised through other means.[5] For investment funds, this analysis should consider not only investor ownership percentages but also voting rights, management shares, side-letter rights, general partner or manager control, nominee arrangements, and any other rights that may confer practical control.

As to virtual assets, note that the OFSI Report states:

> A "hop" is a single transaction between two addresses on a blockchain. Multiple hops create a chain of transactions.[6]

OFSI recommends that UK cryptoasset firms scan a minimum of three to five hops in transaction history “or until the cryptoassets reach an attributed service provider”. OFSI “urges cryptoasset firms to take a risk-based approach to compliance, considering relevant factors including counterparty risk, behavioural patterns and transaction history depth based on the number of hops” and market standards.[7]

If there is reasonable cause to suspect that a Designated Person directly or indirectly owns or controls funds or economic resources, then those funds and economic resources must become subject to an asset freeze, without delay. This means that the funds cannot be transferred from the location they are in at the time the sanctions were discovered. The funds cannot be assigned, converted, charged, “hopped” or any other action that would change their ownership, location, character or possession.

The "relevant firm" or service provider should report information regarding the suspected Designated Person, assets that have been frozen and suspected breaches of financial sanctions to the FRA using the compliance reporting form. The service provider cannot deal with the assets or make funds or economic resources available to the Designated Person (or persons connected with the Designated Person).

The service provider may only deal with the funds or make the economic resources available to the Designated Person in accordance with a general or specific licence granted by the Governor of the Cayman Islands (generally in close cooperation with OFSI) (see "Licences", below).

AUDIT TRAIL AND DOCUMENTED PROCEDURES

Entities should ensure that they are able to produce an audit trail showing evidence that the screening occurred before the client was accepted, and either frequently or periodically thereafter (this is an example of how to prove a negative in the sanctions context).

We recommend that entities have granular step-by-step sanctions screening procedures detailing actions to be taken on discovery of "no matches" (ie, there was no match of the screened names against the UKSL), "true matches" (ie, there is a match of the screened names against the UKSL) and "false positives" (ie, there was a match of the screened names against the UKSL but the analyst discounted this match because the client due diligence documentation held on file verified that this was not the same individual or entity as the Designated Person). The procedures should set out the detection and escalation process, as well as require record-keeping with respect to how any decisions were made.

It is important that entities that have implemented automated software solutions understand how their sanctions screening software works, including, for example, the confidence level at which sanctions screening will result in a match to a name of a Designated Person and the application of fuzzy logic (ie, where there are misspellings or variations on the spelling of a name).

LICENCES

An entity may only deal with funds or make economic resources available to a Designated Person in accordance with a general or specific licence granted by the Governor of the Cayman Islands (generally in close cooperation with OFSI).

For general licences, a general notice is issued to industry.[8]

For specific licences, an application must be made to the FRA and must fall within one or more specific grounds stipulated in the sanctions regimes via the prescribed form.

Some common licensing grounds for obtaining a licence under the sanctions regimes are:

- basic needs of a Designated Person, and in the case of an individual any financially dependent family members;
- reasonable professional fees and disbursements for the provision of legal services;
- routine maintenance of frozen funds or economic resources;
- extraordinary expenses;
- prior obligations under a contract or pre-existing judicial decisions that arose prior to the designation of the person; and

- humanitarian assistance activity.

ADDITIONAL REQUIREMENTS

ENTITIES SUBJECT TO ANTI-MONEY LAUNDERING REGULATIONS

Entities undertaking "relevant financial business" in the Cayman Islands for the purposes of the AMLRs, including those that are registered or licensed by CIMA and any other entities within the scope of the AMLRs or supervised by another Cayman supervisory authority, must ensure that they have documented internal policies, procedures and controls for AML, CTF, CPF and sanctions compliance (this includes sanctions screening procedures).

Cayman Islands AML, CTF, CPF and sanctions training should be undertaken by relevant persons at least once a year and more frequently where appropriate, based on the entity's risk profile. The training should be evidenced and recorded in a register.

The governing body of the entity should demonstrate through reports that it is aware of the entity's sanctions exposure (for example, sanctioned investors or assets in a fund context, indirect interaction with a sanctioned wallet in a virtual asset context) and any mitigating controls (ie, freezing).

Entities must evidence that an entity-wide risk assessment of AML, CTF, CPF and related sanctions has been conducted, which has guided their implemented AML, CTF and CPF framework, including mitigating controls. For example, if a greater portion of an entity's customers are in South China, which is near North Korea (a country that is subject to sanctions), then the entity would likely consider real-time (automated) or daily sanctions screening solutions depending on the type of business being conducted.

ENTITIES NOT SUBJECT TO ANTI-MONEY LAUNDERING REGULATIONS

For entities that are not undertaking "relevant financial business", are not regulated by CIMA or other supervisory body, and do not have to comply with the AMLRs but still have to comply with Cayman Islands sanctions, maintaining evidence that sanctions screening has been undertaken, together with any escalation measures taken, remains important in the event of any prosecution.

CONCLUSION

All Cayman Islands persons are subject to applicable sanctions, whether those persons are regulated by CIMA or not, and whether those persons are carrying on relevant financial business or not. Sanctions compliance is a complex area that is ever-evolving, whether due to the introduction of new sanctions, changes in the licences available, or developments in the technology and types of assets involved in financial transactions.

ENDNOTES

[1] https://www.caymancompass.com/2023/10/24/russia-sanctions-task-force-makes-huge-progress-in-cayman.

[2] https://www.gov.uk/government/publications/financial-sanctions-general-guidance/uk-financial-sanctions-general-guidance (updated 12 May 2026).

[3] https://www.cima.ky/investment-statistics.

[4] Office of Financial Sanctions Implementation (OFSI), "Cryptoassets: Threat Assessment", pp.11, 12.

[5] See the Cayman Islands Financial Reporting Authority's Financial Sanctions Guidance of December 2021, referred to above.

[6] OFSI, "Cryptoassets: Threat Assessment", supra note 4, p.12.

[7] ibid.

[8] For example, General Licence – Russian Oil Exempt Projects – GL20250003 – 17 March 2026, https://fra.gov.ky/general-licence-russian-oil-exempt-projects-gl20250003-17-march-2026.

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