Client Memorandum

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New AML and Sanctions Rules - Update for Cayman Islands Investment Funds

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Introduction

In July 2026, the Cayman Islands Monetary Authority ("**CIMA**") published the following rules, both of which will come into effect on 18 September 2026:

- Rule – Effective Compliance Programme for the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing for Financial Services Providers (July 2026) (the "**AML Rules**"); and
- Rule – Compliance with Financial Sanctions and Targeted Financial Sanctions (July 2026) (the "**Sanctions Rules**" and together with the AML Rules, the "**Rules**").

The Rules apply to CIMA regulated financial service providers ("**FSPs**"), which includes registered investment funds.

The Rules supplement the Anti-Money Laundering Regulations (the "**AMLRs**") and in the event of any conflict or inconsistency, the AMLRs will prevail.

The Rules largely reiterate existing requirements and CIMA guidance, but in the form of binding rules rather than non-binding guidance. There are also a few areas where the obligations applicable to investment funds have been expanded; further details of those key new requirements are set out below.

A breach of the Rules may lead to the imposition of a fine or to other regulatory action. Investment funds should therefore review their compliance programmes now and undertake a gap analysis with respect to the Rules.

AML Rules

1. **Outsourcing**: registered investment funds are now subject to a number of requirements with respect to any outsourcing of their AML compliance programme[1]. The Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands (the "**Guidance**") already provided that FSPs should:

   (i) maintain policies and procedures in relation to outsourcing where the FSP intended to outsource some of its functions; and

   (ii) conduct a risk assessment prior to outsourcing its compliance function or MLRO/DMLRO position.

   These provisions in the Guidance are now reiterated in the form of the binding AML Rules. Registered investment funds must also now notify CIMA of any outsourcing agreement that relates to material functions of its compliance programme.

2. **Independent Audit**: the AMLRs already required FSPs to maintain an "*appropriate effective risk-based independent audit function*". The AML Rules expand the independent audit requirements, requiring in particular that:

   (i) the auditor be suitably qualified and independent (and that documented evidence of the same be provided to CIMA on request);

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[1] CIMA has effectively extended elements of its Outsourcing Regulated Entities – Statement of Guidance to investment funds, by way of binding rules.

(ii) an internal (but nevertheless independent) audit be undertaken for no more than two consecutive cycles before an external audit is undertaken; and

(iii) audit reports be filed with CIMA as soon as practically possible after the completion of the audit.

CIMA's FAQs specifically provide that:

(a) a regulated investment fund must still undertake an AML Audit even if all, or substantially all, of its operations are outsourced; and

(b) CIMA expects that an AML Audit of an individual fund should obtain sufficient and appropriate evidence to conclude on the design and operating effectiveness of the compliance programme of the individual fund.

Accordingly, relying solely on a service-provider-level internal audit or a population-based review, without obtaining sufficient evidence regarding the individual fund's compliance programme, would not provide sufficient assurance of the effectiveness of the AML Audit.

3. **Training**: investment funds must now have a documented AML compliance training programme and plan which must be delivered at least annually.

Sanctions Rules

The Sanctions Rules require that FSPs make their sanctions compliance programme an integral part of their overall AML/CFT/CPF compliance programme and that FSPs have policies, procedures, systems and controls for compliance with financial sanctions.

The Sanctions Rules now expressly provide that FSPs must not assess a customer's geographic risk as "low" in circumstances where the country or geographic area that such customer is located in is subject to sanctions related to its ML/TF/PF risks by the United Kingdom ("**UK**"), United Nations ("**UN**"), United States of America ("**US**") and/or the Office of Foreign Assets Control ("**OFAC**").

Next Steps

Investment funds should now:

1. review their compliance programmes and undertake a gap analysis with respect to the Rules;
2. review any outsourcing arrangements and ensure that those arrangements (as well as the policies and procedures adopted by any outsourced service provider) are compliant with the Rules, noting that the FSP remains ultimately responsible for any outsourced compliance functions;
3. document the internal audit plan, including the frequency of the internal audits to be undertaken (taking into account the risk profile, documented risk assessment and level of assurance required by the fund over the effectiveness of their compliance programme);
4. review sanctions screening procedures to ensure that all applicable sanctions lists are covered and to confirm that customer geographic risk assessments are not assessed as "low" where the customer is located in a country subject to UK, UN, US and/or OFAC sanctions; and
5. ensure that the reviews referred to above, and any associated updates to the compliance programme, are documented in board minutes which can be provided to CIMA upon request (including during any AML inspection);

Your regular TTA attorney contact is ready to assist you with any questions you may have or with further advice concerning the application of the Rules covered in this memo.