# Regulatory Alert

## New Cayman AML Rule Requires Independent Audit of Fund AML Programs

**Effective September 18, 2026**

On July 20, 2026, the Cayman Islands Monetary Authority **("CIMA")** published the Rule on Effective Compliance Programme for the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing for Financial Services Providers **(the "AML Rule")**[1]. It takes effect on **September 18, 2026**, sixty days after publication in the Gazette (similar to the US's Federal Register), and applies to financial services providers **("FSPs")**[2] regulated and supervised by CIMA, which includes Cayman-domiciled private investment funds. CIMA has also published supporting FAQs which clarify certain aspects of the AML Rule.

Much of the AML Rule consolidates obligations already set out in CIMA's Guidance Notes into a single instrument that has the force of law. One requirement, in Section 12, is materially expanded and will be new to most Cayman fund managers: a periodic **independent audit** of the AML compliance program.

### WHAT THE AUDIT REQUIREMENT INVOLVES

FSPs must establish and maintain independent audit procedures to review and test the AML compliance program, confirming its adequacy, effectiveness, and alignment with applicable obligations, including the Anti-Money Laundering Regulations (2025 Revision) (the "AMLRs") and any regulatory requirements issued by CIMA, such as prescribed returns.

The audit must be carried out by suitably qualified persons who are *independent and separate from* those involved in the design, implementation, or operation of the AML policies, procedures, systems, and controls under audit, and who are free from any conflict of interest that could impair objective judgment. In practice this excludes the Anti-Money Laundering Compliance Officer ("AMLCO"), who is responsible under the AML Rule for developing and maintaining the systems the audit would examine. If the Chief Compliance Officer ("CCO") is separate from the AMLCO, they would also be excluded. On request, the FSP must provide CIMA with documentation of the auditor's independence, including the basis on which it was determined.

The audit report must be filed with CIMA as soon as practically possible after completion, or as otherwise prescribed by CIMA. This filing obligation is new for most funds.

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[1] https://www.cima.ky/upimages/priorconsultation/ApplRuleonPreventionofMLTFPF_1774539428.pdf

[2] Financial Services Providers ("FSPs") are defined in the AML Rule as all persons "conducting relevant financial business". "Relevant Financial Business" is defined in Schedule 6 of the Cayman Islands Proceeds of Crime Act, 2024 Revision.

Where the audit identifies deficiencies, breaches, or weaknesses, the FSP must implement remediation measures within timeframes commensurate with their nature, materiality, and risk. Findings cannot simply be logged.

## THE TWO-CYCLE LIMIT, AND WHAT COUNTS AS "INTERNAL"

The audit may be conducted internally by an independent group or individual, but not for more than two consecutive audit cycles. After two consecutive internal cycles, the next audit **must be conducted by an independent, external service provider.**

One critical detail, however, is how the AML Rule defines "internally": “any individual or unit that is employed by, engaged under contract by, or otherwise forms part of the FSP’s organizational structure, *and* that is subject to the direction, control, or oversight of the FSP” (italicization added for emphasis).

An investment fund’s fund administrator may, therefore, fit the definition of “internal” if it is engaged under contract by the FSP and is subject to its direction, control or oversight. Under most investment funds’ arrangements with fund administrators, the investment fund is delegating the AML compliance function to the fund administrator; according to CIMA’s Guidance Notes for the AML Regulations, such a delegation arrangement would subject the fund administrator to the control of the investment fund[3]. This aligns with “subject to the direction, control, or oversight of the FSP” within the AML Rule.

Accordingly, an audit conducted by the investment fund’s fund administrator is likely to count as an “internal” cycle.

Whether audit cycles completed before September 18, 2026 count toward the two-cycle limit is not addressed in the AML Rule. Managers should plan on the conservative assumption that they do, and review their recent audit history accordingly.

## FREQUENCY

The AML Rule does not prescribe an audit frequency. It must be commensurate with the fund’s size, complexity, structure, nature of business, and risk profile, as determined by the fund’s risk assessment or as otherwise required by CIMA.

CIMA’s FAQs (though not the official Rule) offer illustrative intervals: roughly every two years for a higher-risk FSP, three years for medium risk, and four years for low risk. There is no annual requirement. But any interval longer than annual rests on a documented risk assessment, which CIMA would look to. recurring AI-enabled vendors and establish what functionality is active, whether company data may be retained or reused, which providers receive it, and what happens when the vendor changes its model or terms.

[3] Cayman Islands Monetary Authority (CIMA) Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands – Part II, Section 2.10 (Reliance/Delegation – AML/CFT Functions)

**Optima's view** is that an annual audit remains the more defensible position for most SEC-registered advisers, given overlapping US examination expectations (as well as the upcoming 2028 Investment Adviser AML rules which will require annual independent audits) and the evidentiary burden of justifying a longer cycle. Genuinely low-risk funds may be able to support a longer interval, but should document the basis before extending.

## "OUR ADMINISTRATOR HANDLES OUR AML PROGRAM"

CIMA has confirmed in its FAQs that audit work may be performed at the service-provider level, recognizing that funds often have no employees of their own. However, such service-provider level independent audits must include the AML activities performed on behalf of the investment fund in their scope, and investment funds (and their advisers) must assess whether the service-provider level independent audit is sufficiently relevant to the investment fund's AML program[4].

A service-provider level report may form part of the oversight framework, but any such audits must be carefully reviewed and should not be relied upon blindly; FSPs that outsource key functions to service providers must be able to demonstrate and evaluate the effectiveness of internal controls and oversight for such functions. As with any delegation, FSPs may delegate the function but not the responsibility.

## ACTION ITEMS BEFORE SEPTEMBER 18

1. **Confirm scope.** Identify which of your Cayman vehicles are CIMA-regulated FSPs and therefore in scope.
2. **Review audit history.** Determine whether the two most recent audit cycles were conducted internally, including by the administrator or the manager. If so, the next cycle must be external.
3. **Document frequency.** Record the risk-based rationale for your chosen audit interval in the fund's risk assessment.
4. **Identify an auditor and build the back end.** Engage a suitably qualified independent party, document the independence assessment, and establish processes for filing the report with CIMA and tracking remediation of findings.

## A NOTE ON 2028

FinCEN's Investment Adviser AML Rule, which brings SEC-registered investment advisers within the Bank Secrecy Act, takes effect January 1, 2028 and includes an independent testing requirement. FinCEN has stated it intends to revisit the substance of that rule before then, so its final form is uncertain. Even so, advisers building an audit capability for their Cayman vehicles now may find that much of the preparatory and ongoing work for this requirement is transferable.

For further information, or to discuss how Optima can assist with AML program audits, please contact Optima Partners at info@optima-partners.com.

[4] Cayman Islands Monetary Authority (CIMA) AML/CFT FAQs: https://www.cima.ky/aml-cft-faqs