CENTRAL BANK OF SOLOMON ISLANDS
Financial Market Supervision Department

Prudential Guideline No. 14
On Corporate Governance

Applicability

1. The Prudential Guideline is applicable to Financial Institutions licensed by the Central Bank of Solomon Islands (CBSI) under the Financial Institutions Act 1998 (as amended), the National Provident Fund Act [Cap 109], and the Insurance Act [Cap 82].

Background

2. Effective corporate governance is critical to the proper functioning of Licensed Financial Institution (FI hereafter), financial sector, and the economy as a whole. FIs' safety and soundness is a key to financial stability, and the manner in which they conduct their business, therefore, is essential to economic strength.
3. Corporate governance is defined as "*a set of relationships between a company's management, its Board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority and responsibilities are allocated and how corporate decisions are made.*"[1]
4. Corporate governance involves the system in which the business and affairs of a FI is governed by its Board of Directors and Senior Management, involving how a FI:
   a) sets corporate strategy and objectives, including generating economic returns to owners;
   b) runs the day-to-day operations of the business;
   c) protects the interests of depositors;
   d) consider the interests of other recognized stakeholders;
   e) aligns corporate activities and behaviors with the expectation that the FI will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and
   f) establish control functions.

5. One of the functions of the CBSI is to "*foster and to maintain a stable financial system*"[2]. Therefore, the CBSI is keen to uphold sound corporate governance as it

[1] OECD Principles of Corporate Governance, revised July 2015 & BCP Guidelines "Corporate Governance Principles for Banks.
[2] Section 8, CBSI Act 2012

is an essential element in the safe and sound functioning of a FI and may adversely affect the FI's risk profile if not operating effectively. Sound and prudent corporate governance is a key element of protecting and safeguarding depositors' and shareholders' interest.

Purpose of Prudential Guideline

6. The requirements in this guideline are specified pursuant to section 8 of the Financial Institution Act 1998 (hereinafter 'the Act') as amended; to ensure that FIs effectively establishing sound corporate governance framework and pro-active practices relating to corporate risk management within their institutions.

7. The prudential guideline aims to provide each FI with a minimum guideline to promote sound corporate governance practices.

8. The prudential guideline also aims to ensure that each FI is managed soundly and prudently by a competent Board or proxy Board, that can make rational and impartial business decisions in the best interests of the FI, its depositors and stakeholders.

9. The guideline is also aimed at promoting accountability and transparency in FIs business operations.

Key Requirements of Prudential Guideline

10. The guideline requires each FI to implement an appropriate and sound governance framework which operates with a high degree of integrity, as a culture that promotes good governance benefits all stakeholders of an FI and helps to maintain public confidence in the FI, simultaneously upholding the safety and soundness of the financial system.

11. CBSI understands that corporate governance systems will differ between FIs depending on various factors including size, sophistication and organizational structure; ownership structure; nature, scope and complexity of operations; corporate strategy; and risk profile.

12. This prudential guideline applies to the Board and proxy Board, and Senior Management of a branch of a foreign incorporated FI. In the case of a branch of foreign incorporated FI, this guideline applies only in relation to its Solomon Island business.

13. The key requirements of this prudential guideline are that a FI must:

a) develop and implement an internal "Corporate Governance Policy", approved by the Board or proxy Board for locally incorporated FI or branch of foreign incorporated FI;
b) clearly defined authorities, roles and responsibilities for the Board or proxy Board and Senior Management of locally and foreign incorporated FIs. This includes qualification and eligibility of the Board, Board size and composition, loans to and on behalf of the Directors, Board meetings and required Board Committees;
c) establish that the chairperson of the Board or proxy Board must be an Independent Director or a Non-Executive Director. For foreign owned FIs the chairman may be an employee of the parent entity or an affiliate outside Solomon Islands but must be available to meet with the CBSI, if required;
d) establish relevant Board committees;
e) ensure that the Board or proxy Board oversee the FI's overall risk strategy, including its risk tolerance and appetite;
f) have an adequate policy on Board renewal and procedures for assessing Board performance;
g) emphasize the separate responsibilities of the Directors and the Senior Management;
h) establish independent internal and external audit functions in addition to minimum qualifications and reporting lines for these functions.
i) comply with the prudential guideline on Fit and Proper Requirements (see PG 15);
j) ensure that the Board of Directors or proxy Board and Senior Management fully recognize the extent to which their FIs have complied with the requirements of this guideline, and take adequate steps to improve their FI's practices; and
k) FIs should consult with the CBSI if they believe that they cannot meet these requirements.

Definitions

14. As used in this Prudential Guideline the following terms, unless otherwise clearly indicated by the context, have the meanings specified below.

15. **"Affiliate"** – shall have the same meaning as defined in Prudential Guideline No. 12 on Related Party Transaction.

16. **"Board" (Board of Directors)** – means the highest body of authority in a FI responsible for strategically guiding the FI, effectively monitoring management, and properly accounting to shareholders. It is the body that supervises management.

17. **"Chief Executive Officer"** – means a Country Head, a Country Manager, a General Manager or any similar designation accorded to an officer who heads the FI or at the most senior level of management of the FI who effectively manages that FI in Solomon Islands.

18. **"Director"** – means a person holding office as a Director of the FI, or in conjunction with other Directors acting as a Board of Directors, having powers necessary for managing, and for directing and supervising the management of, the business and affairs of the FI.

19. **"Executive Director"** – means a member of the Board of Directors who is involved in the day-to-day management of the FI and/or is in full time salaried employment of the FI or any of its subsidiaries or affiliates, such as the Chief Executive Officer etc.

20. **"Foreign Incorporated FI"** – means a FI incorporated outside Solomon Islands which has been licensed as a branch to conduct business in Solomon Islands. The parent may also be a FI in its country of domicile, authorized, registered or licensed by the appropriate licensing authority.

21. **"Group/Parent"** – means a FI plus all its subsidiaries and affiliates.

22. **"Independent Director"** – means a Director that: (a) is not related or affiliated to a shareholder that has the ability to control or influence management; (b) has not been employed by the FI or its subsidiary in any executive capacity for the preceding three financial years; (c) is not a member of the immediate family of an individual who is or has been in any of the past three financial years employed by the FI or the group in an executive capacity; (d) is not a professional advisor to the FI or the group other than in a Director capacity; (e) is not a significant customer or supplier of the FI; or (f) has no significant contractual relationship with the FI or group etc.

23. **"Internal Audit"**– means an independent, objective assurance and consulting activity designed to add value and improve a FI's operations and which helps a FI accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

24. **"Internal Control"**– mean a set of rules and controls governing the FI's organizational and operational structure, including reporting processes, functions for risk management, compliance, internal audit, and other similar control measures.

25. **"Non-Executive Director"** – means a Director who is not a member of the FI's management or its subsidiaries and does not involved in the day-to-day management and not a full time salaried.

26. **"Proxy Board"** – means the Country Head of a branch of a foreign incorporated FI.

27. **"Related Party"** – shall have the same meaning as defined in Prudential Guideline No. 12 on Related Party Transaction.

28. **"Risk Management Framework"**– means part of the overall corporate governance framework, through which the Board and management establish and make decisions about the FI's strategy and risk approach; articulate and monitor adherence to risk appetite and risk limits vis-à-vis the FI's strategy; identify, measure, manage and control risk.

29. **"Senior Management"** – means a team comprising of Chief Executive Officers and departmental managers whose combined efforts or conducts have impacts on the day-to-day administration and operations of the FI.

30. **"Stakeholder"** – means an individual or group, in addition to shareholders, who have an interest in, and/or influence over, the FI's operations and the achievement of the FI's goals, such as creditors, employees, suppliers, customers and the community.

31. **"Subsidiary"** – shall have the same meaning as defined in Prudential Guideline No. 12 on Related Party Transaction.

32. **"extraordinary meetings"** means any meeting called for transacting any business of urgent nature, which cannot be postponed until the next regular meeting of the Board. More so, it is a meeting convened even if a quorum is not present and decisions may be taken without regard to the existence of a quorum; and such decisions must be approved at the next regular meeting of the Board to remain in effect.

33. **"four eye principle"** means internal control that requires that any business activity like a decision, transaction, etc. by an individual within a FI that has a material risk profile must be controlled, reviewed and double checked by a second individual that is independent and competent. This controlling mechanism is used to facilitate delegation of authority and increase transparency.

Minimum Requirements of Sound Corporate Governance

34. A FI must establish and implement an internal "Corporate Governance Policy", approved by its Board. In the case of branch operations, this Policy must be approved by the Proxy Board or the Senior Management. Branch operations can adapt the Group's Corporate Governance Policy but that such Policy must, at a minimum, include all requirements of this PG.

35. In developing its internal corporate governance policy, each FI must consider the size, nature, scope, complexity, and risk profile of the FI.

36. The Policy of the FI must contain the following minimum corporate governance requirements:
    a. Clearly defined authorities and responsibilities for the Shareholders, Board of Directors, and Board Committees;
    b. Clearly defined authorities and responsibilities for the Senior Management for locally and foreign incorporated FIs;
    c. Clearly defined pre-established attributes and procedures for performing the fitness and propriety assessment on individuals nominated to the Board of Directors and Senior Management positions;
    d. Clearly defined procedures for the selection, approval, renewal and succession of Board of Directors and Senior Management;
    e. Clearly defined procedures for dealing with all types or classes of conflicts of interests. Conflicts of interest refers to a situation where a responsible person influences the FI's decision in ways that could result in personal gain, benefit or advantage of any kind;
    f. Clearly defined codes of conduct, ethical standards, and corporate values for Board of Directors, Senior Management, and employees of the FI; and
    g. Clearly defined selection and appointment processes and procedures for the internal and external auditors of the FI.

Functions, Roles, and Responsibility of the Board

37. The Board has ultimate responsibility for setting the strategic direction of the FI, for driving the governance and operational culture and policy making of the FI, and for providing oversight and supervision of Senior Management of the FI.

38. It is the primary responsibility of a FI's Board and management to ensure that the FI meets prudential and statutory requirements and has management practices to limit risks to prudent levels. The risk management practices must be documented which should be regularly reviewed and updated (at least annually) to take account of changing circumstances.

39. The Board must ensure that management facilitates training programmes at least annually for Directors and Senior Management to enable them to have a robust understanding of the nature of the business, nature of risks, consequences of risks

being inadequately managed, and an appreciation of the techniques for managing risks effectively.

40. The responsibilities of the Board include but are not limited to:
    a. Developing and implementing a Board charter which defines the Board's purpose, powers, and key responsibilities;
    b. Developing and implementing Board committee charters which defines the committees' purpose, powers, and key responsibilities;
    c. Reviewing and approving the FI's organizational structure, business objectives, strategies, plans, and risk management framework (RMF);
    d. Ensuring that the FI has policies covering all aspects of its operations and reviewing and approving all liquidity, funding, capital, and other risk management policies;
    e. Promoting the safety and soundness of the FI, understanding the regulatory environment, and ensuring that the FI maintains a close relationship with the CBSI;
    f. Ensuring that the FI has the necessary back-ups, including contingency and succession plans, for business operations and for key personnel to ensure the FI continues operations unimpeded;
    g. Appointment, performance review, and compensation of the Chief Executive Officer and other members of Senior Management;
    h. Ensuring the FI must have adequate policies and practices for the selection, approval, renewal, performance review, compensation, and succession of Senior Management;
    i. Providing oversight for Senior Management as part of the FI's checks and balances by monitoring Senior Management's actions and setting performance standards;
    j. Ensuring the FI is a good corporate citizen in the host country in terms of compliance to all applicable Solomon Islands laws, regulations, and the CBSI's prudential guidelines;
    k. Ensuring the FI's internal policies and contractual arrangements do not explicitly or implicitly restrict or discourage auditors and other parties from communicating with the CBSI;
    l. Ensuring that the FI has adequate accounting, management information system, and contingency plans consistent with the size and scope of the FI's operations;
    m. Ensuring that, as part of the governance framework, establishes Board committees and ensuring that such committees have their own documented charter with clear responsibilities, reporting requirements, and delegated authorities. The establishment of a committee or delegation of authority does not relieve the Board of its responsibilities on any matter under law or policy.
    n. In the case of FIs operating in Solomon Islands as branches of foreign incorporated FIs, copies of all reports and deliberations of these committees are sent to the FI's Parent/Group office for review;

o. Ensuring the FIs have on-going training and development of Directors and Senior Management;
p. Ensuring the FIs have independent and adequate resourcing of the internal audit functions; and
q. Reviewing the external audit plan, the audit fees, and the scope of the audit engagement.

41. A face-to-face meeting of the Board must occur at least annually with at least 75% of Directors present.

42. Directors of FIs, including subsidiaries and branches of foreign incorporated FIs, must avoid situations that could give rise to a conflict of interest or to perceptions of a conflict of interest. The Board must ensure that the FI has a formal conflict of interest policy and must ensure that such a policy is a living document by ensuring that it is upgraded regularly. The policy must include:
    a. A Director's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
    b. A Director's responsibility to withdraw from any discussion or decision making process on the matters in which a conflict of interest exists or might be perceived to exist;
    c. Adequate procedures for transactions with related parties to be made on an arms-length basis;
    d. A requirement on maintaining of an up-to-date register for recording and managing conflicts of interest; and
    e. Ensuring the FI has appropriate procedures for dealing with any non-compliance with the policy.

43. The Board and the Chief Executive Officer must notify the CBSI of any material risk matters that they hold about the safety and soundness of the FI. The Board policies of the FI must not prevent members of Board of Directors or Senior Management from notifying the CBSI at any time about material risk matters which they hold.

44. The Board Charter and clarity around Board responsibilities and responsibilities of its Committees or any delegated authority must extend as far as possible to any subsidiary or joint venture operations to ensure that the parent group Board can meet its responsibilities.

45. Where an FI utilises policies, charters, authorities, committees or other systems and processes of a parent entity, it must be able to demonstrate to the CBSI that they have been tested and appropriately tailored to meet the FI's business and risks in Solomon Islands and such arrangement as a minimum satisfy the intent of these requirements.

46. Ensure that the FI maintains a positive image within the industry and the economy as a whole. To this extent, therefore, the FI is expected to provide adequate services and facilities both efficiently and competitively in line with safe and sound practices.

Functions, Roles, and Responsibilities of Senior Management for Locally Incorporated FIs

47. The Board is accountable to the CBSI while the Senior Management is accountable to the Board;

48. Each FI's Senior Management are responsible for the implementation of the policies and procedures and for ensuring that all operations are conducted within the risk appetite and tolerance levels and risk management frameworks approved by the Board. Senior Management's skills, competence, integrity, and experience are crucial to the safety and soundness of the FI.

49. The Senior Management of the FI is responsible for the direct administration and operations of the FI. Key delegated responsibilities include:
    a. Developing business objectives, strategies, plans, organisational structure and controls, and policies for Board's consideration, including the implementation of the same once approved by the Board;
    b. Ensuring that all procedures, processes and policies are clearly communicated through all relevant levels of the FI;
    c. Developing and implementing processes or systems that identify, assess, manage, or monitor risks in relation to business activities and operations;
    d. Administer and oversee the effective management of the FI to ensure that it operates in full compliance with all applicable Solomon Islands laws, regulations, Central Bank's Prudential Guidelines, and the procedures established by the Board;
    e. Monitor the achievement and provide the Board or Proxy Board with sound advice on the organisational objectives, strategy, structure and significant policies, and the effectiveness of organisational structure and controls of the FI;
    f. Facilitate the Board's oversight role by providing relevant, accurate, and timely information, with all Board papers and supporting documentation distributed at a reasonable time in advance of regular Board meetings to enable the Board members time to effectively read and understand the Board papers. This enables the Board to oversee the management and operations of the FI, assess policies and effectiveness of internal controls;
    g. Provide assurances to the Board that policies, processes and controls are adequate, that they are operating effectively, and that risk is appropriately controlled;

h. Promoting the safety and soundness of the FI, understanding the regulatory environment, and ensuring that the FI maintains a close and open relationship with the CBSI;
i. Ensuring that the Board is kept well informed, including of correspondence with the CBSI and breaches or potential breaches of the CBSI's prudential requirements;
j. Ensuring that employees have the appropriate level of training and that the FI has a training development framework; and
k. Engage skilled and competent staff and support them with training and development opportunities to sustain the delivery of short and long term business objectives, the risk management framework and protect the reputation of the FI.

Functions, Roles, and Responsibilities of the Senior Management of a Branch of a Foreign Incorporated FI

50. The Senior Management is held accountable for the FI's operations.

51. The Chief Executive Officer is primarily responsible for ensuring that the FI has an internal 'Corporate Governance Policy', whether it be an adaptation of the Group's Policy or the development of a separate Policy.

52. Each member of the Senior Management is responsible for the implementation of the policies and procedures and for ensuring that all operations are conducted within the risk appetite and tolerance levels and risk management frameworks approved by the Board. Senior Management's skills, competence, integrity and experience are crucial to the safety and soundness of the FI.

53. The Senior Management is responsible for the implementation of the business objectives, strategies, plans, organisational structure and controls, and policies, which must be approved by the parent group of the FI or the Senior Management themselves, dependent on the FI's approach.

54. The Members of Senior Management of the FI is responsible for smooth administration and operations of the FI. Key delegated responsibilities include:
   a. Developing or adaptation and implementing of group's business objectives, strategies, plans, organisational structure and controls, and policies for the FI;
   b. Ensuring that all procedures, processes and policies are clearly communicated through all relevant levels of the FI;
   c. Developing and implementing processes or systems that identify, assess, manage, or monitor risks in relation to business activities and operations;

d. Promoting the safety and soundness of the FI by ensuring the FI's full compliance with all applicable Solomon Islands laws, regulations and Central Bank's Prudential Guidelines as well as the in-house policies and procedures;
e. Monitor the achievement and provide the Board or Proxy Board with sound advice on the organisational objectives, strategy, structure and significant policies, and the effectiveness of organisational structure and controls of the FI;
f. Promoting the safety and soundness of the FI, understanding the regulatory environment, and ensuring that the FI maintains a close and open relationship with the CBSI;
g. Undertake the necessary due diligence in appointing the FI's employees to engage skilled and competent staff and support them with training and development opportunities to sustain the delivery of short and long term business objectives, the risk management framework and protect the reputation of the FI;
h. Ensuring that employees have the appropriate level of training and that the FI has a training development framework; and
i. Ensuring that the group Board or Proxy Board is kept well informed, including of correspondence with the CBSI and breaches or potential breaches of the CBSI's prudential requirements;

Qualification and Eligibility of the Board

55. The FI must have adequate policies and procedures for the selection, approval, renewal and succession of Directors. There must be fitness and propriety assessment undertaken and no-objection obtained from the CBSI, prior to appointing Directors of FI.

56. Directors of the FI must have a good range of skills and experience needed to discharge their responsibilities as directors. The Board or Proxy Board must ideally have a mix of core competencies in banking, accounting and finance, business or management experience, industry knowledge, legal, strategic planning and risk management experience, to make an effective contribution to Board deliberations and processes.

57. The Directors must meet the criteria of fit and proper as per the CBSI Prudential Guideline No. 15: Fit and Propriety Requirements for Persons Holding Responsible Persons Position for licensed and deemed licensed FIs in Solomon Islands.

58. The Board chairman plays a crucial role in the proper functioning of the Board. The chairman must demonstrate strong leadership, independence of thought and the ability to include all Board members in all deliberations.

59. The Board and Proxy Board of each FI must implement an independent Board evaluation process that reflects the activities, complexity and size of the FI, at a minimum.

60. A foreign incorporated FI can adopt its parent's group framework for annual Board appraisal provided the FI is able to prove to the CBSI that these arrangements, as a minimum, satisfy the intent of these requirements.

61. The Board must dedicate sufficient time and allocate sufficient funds for Director development in the annual budget and provide other resources to ensure that all Directors acquire, maintain and deepen their knowledge and develop the skills required to fulfil their obligations prudently and professionally.

Board Composition and Size

62. The size of the Board or Proxy Board must be commensurate with the size, scope and nature of the FI's operations to ensure that it operates in a sound and prudent manner.

63. The standard requirements is the Board or Proxy Board of a FI must have a minimum of five Directors at all times. FIs should consult with the CBSI if they believe that they cannot meet this requirement.

64. For prudent practice, the majority of the Directors must be non-executive, and that at least half of those Directors are independent with relevant experience in management, banking, accounting, and finance. Moreover, non-executives should constitute the majority of Directors present and eligible to vote at any Board meeting. FIs should consult with the CBSI if they believe that they cannot meet these requirements.

65. Each FI is required to submit to the CBSI the list of its Directors or the updated list should there be changes in the Directors. This list must be submitted to the CBSI within 30 calendar days of such change.

66. The CBSI accepts that for foreign incorporated FIs non-executives could include executives of the parent FI. Foreign incorporated FI must consult with the CBSI if they believe that they cannot meet this requirement.

67. The CBSI requires, at least two (2) Directors must be Solomon Islands citizen and independent of the management of the locally incorporated FI, its parent and any subsidiary or affiliate. FIs must consult with the CBSI if they believe that they cannot meet this requirement.

68. Independent Directors must have proportionate representation on Board committees.

Lending and dealings with Directors, Employees and Shareholders

69. The FIs must comply with Restrictions on Business requirements set down in section 12(1) of the Financial Institutions Act 1998 (as amended).

70. Each FI must adhere to requirements specified in paragraph 35 of Prudential Guideline 12 on Related Party Transaction.

Board Committees

71. Each Board or Proxy Board must establish specialized Board committees to oversee critical or major functional areas and to address matters, which require detailed review or in-depth consideration. The Board or Proxy Board may delegate certain duties to the Board committees but assumes responsibility for the decisions of the committees. A FI must consult with the CBSI if they believe that they cannot meet this requirement.

72. The Board or proxy Board of FIs must ensure that the FI has the following or similar committees to be in place: Audit Committee, Asset and Liability Committee (ALCO), Risk Management Committee, and Nominating and Remuneration Committee. A FI must consult with the CBSI if they believe that they cannot meet this requirement.

73. Every Board committee must have a clear, formal charter that sets out its role, schedule of meetings, and delegated responsibilities whilst safeguarding the ultimate decision making authority of the Board as a whole. The summary of the charter and membership of each Board committee must be published in the annual report. A FI must consult with the CBSI if they believe that they cannot meet this requirement.

74. Proceedings of committee meetings must be properly recorded and reported back to the Board to allow the other Directors to be informed and seek clarification from the committee members if so desired.

75. All Board committees must preferably be chaired by a Non- Executive Director. The Board chairman must not be a member of any subcommittee. The Board must strive to eliminate dual membership of oversight committees of the Board such as audit committee and risk management committees.

76. All Board committees must be free to take independent, external professional advice as and when deemed necessary at the FI's cost.

77. All Board committees must be subjected to regular evaluation by the Board to ascertain their performance and effectiveness. Board committee charters must be reviewed regularly and modified when necessary.

78. The Board must consider occasional rotation of members and the chairperson of all Board committees taking into account the specific experience and knowledge required to sit on a particular committee.

79. The Chief Executive Officer must not be a member of Board Audit Committee.

Meetings of Boards

80. The Board or Proxy Board must meet at least once a year. The number of meetings must be commensurate with the nature, size, complexity and risk profile of the FI. Each Director must attend at least 75% of all ordinary Board or Proxy Board meetings held in each financial year. Every effort must be made to attend all extraordinary Board meetingsin each financial year.
81. The Board or Proxy Board must keep minutes of all meetings and decisions made appropriately recorded.
82. The Board or Proxy Board must ensure its availability to meet with the CBSI as and when requested.

Training

83. The FI must provide training to Board appointees as soon as their no objection confirmation is received from the CBSI. The training must include, but is not limited to, familiarisation programme on the FI's business and risk profile, risk management, governance practices, and internal controls, etcetera.

Remuneration

84. The Board or Proxy Board must establish and maintain a documented clear policy for setting remuneration of Directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience, nature and size of the FI.

85. Executive Directors' remuneration must be clearly differentiated from that of Non-Executive Directors.

86. Preferably, each FI must appoint a remuneration committee, consisting entirely or mainly of Non-Executive Directors. The remuneration committee must make recommendations to the Board with agreed terms of reference on the FI's

framework of executive remuneration and to determine specific remuneration packages for each of the Executive Directors.

87. Each FI must provide full disclosure in the annual report of Director remuneration on an individual basis, giving details of earnings, share options, restraint payments and any other benefits.

88. The remuneration committee must play an integral part in succession planning for management.

89. Nothing in this prudential standard prevents a FI from adopting and applying a group Remuneration Policy provided that the policy has been approved by the Board of the FI and that the Board is able to prove to CBSI that these arrangements satisfy the intent of this requirement.

90. The Remuneration Policy must form part of the FI's risk management framework.

Risk Management Systems

91. The Board must ensure that the FI has risk management policies and systems in place to identify, measure, monitor, control, and report all risks associated with the FI. The Risk Management System must be supported by a system of sound internal controls.

92. The Board must maintain a structure which requires regular reporting to Senior Management and to the Board on the nature and magnitude of risks the FI is exposed to and the structures to control these risks, including a regular assurance to the Board that all risk management systems and internal controls are being properly applied at all times.

93. The Board risk management committee must maintain records of all its meetings, in particular records of discussions on key deliberations and decisions taken.

94. The Board must ensure that management considers the compliance function as a part of the overall risk management framework and submits compliance reports to the Board on a quarterly basis.

95. The Board must periodically review and approve risk exposure limits to conform to any changes in strategies, products and market conditions.

96. The Board must ensure that duties are segregated in order to avoid operational risks. The Board must specify the methods of authorisation, limits and delegation as well as a dual control system and the four eyes principle to ensure accuracy of risk exposure limits.

97. Each FI must provide the CBSI with high level descriptions of its key risk management systems covering all major areas of risks and keep the CBSI abreast of all material changes to their risk management systems as they are made reflecting changing business conditions, as and when they change their risk management systems.

Internal Control Compliance

98. Development and implementation of an adequate and sound system of internal controls is the responsibility of Senior Management. The Board of Directors is ultimately responsible for ensuring that such a system is established, implemented and maintained.

99. The Board must review at least annually the system of internal controls to determine whether it works to expectation and to ensure it remains appropriate.

100. The audit committee must ensure that the FI complies with regulatory requirements, including prudential requirements, taxation rules and various reporting obligations. The corporate governance framework must therefore include systems for ensuring that all statutory and regulatory requirements are being complied with, and to highlight potential or actual breaches as and when they occur.

Internal Auditor

101. Each FI must have an independent and effectively established internal audit function. Should a FI believe it is not necessary to have an internal audit function; it must seek prior approval from the CBSI requesting for an exemption from this requirement. Clear reasons as to why it believes it should be exempted must be provided in writing.

102. The objectives of the internal audit function must include among other issues, the following:
    a. Internal audit's role and responsibility for governance, risk management, consulting services, and fraud investigations, etc.;
    b. The right for the Senior internal auditor to have unrestricted access to the audit committee chairperson, employees, facilitates and records of the FI;
    c. The internal audit function reports Directory to the Board of Directors or its audit committee to ensure independence from management; and
    d. The Senior internal auditor meets with the audit committee at least once a year.

103. The internal audit function must take the form of one or more of the following:

a. An in-house internal audit function;
b. For incorporated FIs who are part of a group operation, the group's internal audit function;
c. Outsourced to a third party, e.g., a reputable accountancy firm; and
d. The internal audit function reports directly to the Board Audit Committee.

External Auditor

104. The Board or proxy Board or the Senior Management as relevant, must acquaint itself fully with the responsibilities of external auditors and be rigorous in its selection of auditors on professional merit. Any auditor so appointed must be approved by the CBSI in accordance with Section 9 of the Financial Institutions Act 1998 (as amended).

105. The Board must satisfy itself that there is no relationship between the auditor and the FI or any related person that could compromise the independence of the auditor, and must require confirmation of this from the auditor.

106. The external auditor must be independent (and seen to be independent) of the FI's internal auditors as well as independent of any other outsourced activities of the FI.

107. The selection of the External Auditor must comply with the requirements set down on Section 9(7) of the Financial Institutions Act 1998 (as amended).

108. The external audit function reports directly to the Board Audit Committee.

Reporting Requirements to the CBSI

109. Each FI must submit to the CBSI such report as may be required and in the form and frequency as the CBSI may prescribe.

Enforcement and Corrective Measures

110. The CBSI will monitor FIs for sound corporate governance, through a combination of on-site examination and off-site supervision.

111. A FI, which fails to comply with the requirements contained in this Prudential Guideline or to submit certain reports to the CBSI, which are materially inaccurate, will be considered in breach of violation of this guideline and therefore, may be subject to a monetary penalty.

112. The CBSI will pursue any or all corrective measures as provided in section 16 of the Financial Institutions Act 1998 (as amended) to enforce the provisions of this Prudential Guideline including:

a. Issuance of an order to cease and desist from the unsound and unsafe practices and

b. Action to replace or strengthen the management of the FI.

Effective Date

113. The effective date of this Prudential Guideline is July 1, 2019.

Issued this **1st** day of **July** 2019.

Governor, Denton Rarawa
Central Bank of Solomon Islands