

**CENTRAL BANK OF SOLOMON ISLANDS**  
**Financial Market Supervision Department**

**Prudential Guideline No. 17**  
**On Politically Exposed Persons Risk Management**

**Applicability**

1. The Prudential Guideline is applicable to Financial Institutions licensed and deemed licensed by the Central Bank of Solomon Islands (CBSI) under the Financial Institutions Act 1998 (as amended), the National Provident Fund Act [Cap 109], the Money Laundering and Proceeds of Crime Act 2010 (as amended), and the Insurance Act [Cap 82].

**Background**

2. A politically exposed person (PEP hereafter) is defined by the Financial Action Task Force (FATF) as an individual who is or has been entrusted with a prominent public function.<sup>1</sup>
3. As has been confirmed by analysis and case studies PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption and bribery, as well as conducting activity related to terrorist financing (TF) and proliferating financing (PF) due to their position and influence.<sup>2</sup> To address these risks, financial institutions (FIs) shall ensure to implement measures to prevent the misuse of the financial system by PEPs, and to detect such potential abuse if and when it occurs.
4. Corruption, asset theft, and international flows of stolen and laundered money are ongoing global problems which have an insidious and devastating impact on financial development. It degrades and undermines public confidence in financial institutions, which taint and destabilize Solomon Island's financial system, affecting public trust and confidence. It further damages the country's investment climate and prospects for financial and macroeconomic stability.
5. There are legal, reputational, and operational and other risks FIs can incur due to noncompliance, so recognizing PEPs and the risks entailed with strong risk mitigation framework will ultimately protect FIs. It is important that FIs have in place standard process to identify and assess risks, apply the optimal set of

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<sup>1</sup> FATF GUIDANCE, Politically Exposed Persons (Recommendations 12 and 22), June 2013.

<sup>2</sup> FATF GUIDANCE, Politically Exposed Persons (Recommendations 12 and 22), June 2013.

controls and monitor the results to ensure that all significant risk exposures are addressed.

6. An effective risk-based approach will allow FIs to exercise reasonable business and professional judgement with respect to customers and counterparties.

#### **Purpose of Prudential Guideline**

7. The requirements in this guideline are specified pursuant to section 8 and 21 of the Financial Institution Act 1998 (hereinafter 'the Act') as amended and section 12 of Money Laundering and Proceeds of Crime (Amendment) Act 2010 [the MLPOC (Amendment) Act 2010].
8. The guideline also incorporates the requirements of Basel Committee on Banking Supervision's Customer Due Diligence for banks and the Financial Action Task Force (FATF) 40 recommendations relevant to Financial Institutions licensed by the CBSI.
9. The prudential guideline aims to provide each FI with minimum requirements to promote sound ML and FT risk management practices by enhancing its customer identification processes.
10. The prudential guideline also aims to ensure that each FI is managed soundly and prudently by developing and having in place an effective customer due diligence (CDD hereafter) process and procedures based on risk-based approach. Each FI shall simplify or enhance its CDD framework aligning to the risk of ML and FT of a customer.
11. The prudential guideline also aims to provide further CDD requirements on dealing with domestic, foreign and international organization PEPs.
12. These requirements are preventive in nature, and should not be interpreted a stigmatizing PEPs as such being involved in criminal activity. Refusing a business relationship with a PEP simply based on the determination that the customer is a PEP is contrary to the letter and spirit of the MLPOC Act.

#### **Key Requirements of Prudential Guideline**

13. The prudential guideline sets out the minimum requirements on having a risk management system capable of determining whether a customer is a PEPs when establishing a business relationship with individuals holding important public positions as well as persons or companies clearly related to them (i.e. families, close associates etc.) which expose an FI to particularly significant reputation or legal risks.



14. The key requirements of this prudential guideline are that a FI:
- a) Must have a risk management system capable of determining whether a customer is a PEPs.
  - b) Must develop and implement simplify or enhance CDD policy and procedures using risk-based approach on domestic, foreign and international organization PEPs.

### **Definitions**

15. As used in this Prudential Guideline the following terms, unless otherwise clearly indicated by the context, have the meanings specified below.
16. **“Politically exposed person (PEP)”** as an individual who is or has been entrusted with a prominent public function in Solomon Islands or another country such as Head of State or of government, Minister, judge, a member of legislature, the head of a government department or statutory body and any other prescribed person and includes any spouse, child, brother or sister or parent, brother-in-law, sister-in-law or parent-in-law or close associate of such person.<sup>3</sup>
17. **“Foreign PEP”** refers to a PEP in foreign country. Some examples may include:
- a) Head of State or President;
  - b) Prime Minister;
  - c) Government Minister (including Assistance Minister and Acting Minister);
  - d) Member of Parliament;
  - e) Permanent Secretary and Deputy Permanent Secretary of a Government Ministry;
  - f) Ambassador or principal representative of foreign country to Solomon Islands;
  - g) Head (including Deputy or Assistant) of a government department, agency and statutory authority;
  - h) Chief Executive Office (or equivalent) of a state-owned company;
  - i) Judicial officers such as magistrates, judges and the chief registrar; and
  - j) Leader and senior officials of a political party.
18. **“Domestic PEPs”** refers to a PEP in Solomon Islands. Some examples may include:
- a) Head of State;
  - b) Prime Minister;
  - c) Government Minister (including Assistance Minister and Acting Minister);
  - d) Member of Parliament;
  - e) Permanent Secretary and Deputy Permanent Secretary of a Government Ministry;
  - f) Ambassador or principal representative of Solomon Islands to another country;
  - g) Head (including Deputy or Assistant) of a government department, agency and statutory authority;

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<sup>3</sup> MLPOC (Amendment) Act 2010

- h) Chief Executive Office (or equivalent) of a state-owned company;
  - i) Judicial officers such as magistrates, judges and the chief registrar; and
  - j) Leader and senior officials of a political party.
19. **“International organisation PEPs”** refers to a PEP in international organisation that may include members of senior management or individuals who have been entrusted with equivalent functions, i.e. directors, deputy directors and members of the board or equivalent functions.<sup>4</sup>
20. **“Family members”** refers to individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership<sup>5</sup>. Some examples may include:
- a) Spouse, de-facto partner;
  - b) children;
  - c) parents;
  - d) parents of his/her spouse;
  - e) brothers and sisters (siblings); and
  - f) brothers and sisters (siblings) of his/her spouse.
21. **“Close associates”** refers to individuals who are closely connected to a PEP, either socially or professionally<sup>6</sup>. Some examples may include:
- a) Business partners or associates;
  - b) A prominent member of the same political party, civil organization or labour/employee union etc.
22. **“Beneficial owner”** refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise effective ultimate effective control over a legal person or arrangement.<sup>7</sup>
23. **“customer”** for the purpose of this guideline also includes potential customers.
24. **“Enhanced due diligence (EDD)”** include enhanced:
- a) scrutiny of customer’s identity (including of the beneficial owner and controller);
  - b) scrutiny of the source and legitimacy of funds;
  - c) transaction monitoring; and
  - d) customer profiling.

### **Key Requirement on Domestic, Foreign and International Organization PEPs**

25. Pursuant to section 12A, 12B and 12C of the MLPOC (Amendment) Act 2010, at first engagement with a customer, each FI shall take reasonable measures as part of its internal control systems, to gather sufficient information, and check publicly

<sup>4</sup> FATF Guidance, June 2013, Politically Exposed Persons (Recommendation 12 and 22).

<sup>5</sup> FATF Guidance, June 2013, Politically Exposed Persons (Recommendation 12 and 22).

<sup>6</sup> FATF Guidance, June 2013, Politically Exposed Persons (Recommendation 12 and 22).

<sup>7</sup> The FATF Recommendation, November 2017, International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation.



available information to determine whether the customer or the beneficial owner is a domestic, foreign or an international organization PEP.

26. Each FI considering establishing a relationship with a person suspected to be a PEP should identify that person fully, as well as people and companies that are clearly related to him/her.
27. Pursuant to section 12C of the MLPOC (Amendment) Act 2010, FI must have in place risk-based systems and controls to adequately identify and verify its customers including domestic, foreign or an international organization PEPs; and deal with PEPs who are customer and must include the enhanced customer identification process, enhanced customer verification and enhanced on-going diligence processes.
28. Simplify or EDD of a customer who is an individual or a legal entity must comply with the requirement set down on Section 12C of the MLPOC (Amendment) Act 2010.
29. Where the customer is assessed and determined to be a domestic, foreign or an international organization PEP, each FI shall:
  - a) Take reasonable measures to establish the source of wealth or income;
  - b) Obtain the approval of a senior manager of the FI before establishing a business relationship; and
  - c) Conduct regular and ongoing enhanced monitoring of the business relationship.
30. When entering into a business relationship with a domestic, foreign or an international organization PEP, FI shall obtain information on the purpose and intended nature of the business relationship.
31. Risk factors each FI should consider in handling a business relationship (or potential relationship) with a domestic, foreign or an international organization PEP include:
  - a) any particular concern over the country where the PEP is from, taking into account his position;
  - b) any unexplained sources of wealth or income (i.e. value of assets owned not in line with the PEP's income level);
  - c) expected receipts of large sums from governmental bodies or state-owned entities;
  - d) source of wealth described as commission earned on government contracts;
  - e) request by the PEP to associate any form of secrecy with a transaction; and
  - f) use of accounts of government accounts as the source of funds in a transaction.

32. If the risk assessment determines that the business relationship with a domestic, foreign or international organization PEP present a high risk for ML and FT, the FI must treat the PEP as a high-risk customer and apply the EDD measures outlined in Section 12C (d) (iii) of the MLPOC (Amendment) Act 2010.
33. If the risk assessment determines that the business relationship with a domestic, foreign or international organization PEP does not present a higher risk for ML and FT, the FI will subject the PEP customer to usual CDD requirements under the MLPOC (Amendment) Act 2010 and relevant FIU regulations and guidelines.

#### **Key Requirement on Family Members and Close Associates of PEPs**

34. Pursuant to section 12C of the MLPOC (Amendment) Act 2010, the FI must have in place appropriate risk-based systems and controls to identify, verify and understand whether the customer or the beneficial owner of the customer is an immediate family member of a PEP or a close associate of a PEP.
35. Family members and close associates of domestic, foreign and international organisation PEPs who engage in higher risk business relationship with a FI must also be subjected to EDD measures specified in section 12C of the MLPOC (Amendment) Act 2010 and this Guideline.

#### **Additional Requirements on Beneficiaries of Insurance Policies of PEPs**

36. Regarding insurance policies, each FI shall undertake reasonable measures to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs. This should occur, at the latest, at the time of the payout of the policy proceeds.
37. Where higher risks are identified, FIs shall undertake the following:
  - a) inform senior management before the payout of the policy proceeds;
  - b) conduct EDD on the whole business relationship with the policyholder; and
  - c) consider making a suspicious transaction report.

#### **Sources of Information for Determining Status of PEPs**

38. Establishing whether a customer or beneficial owner is a PEP is a core requirement of CDD. CDD is the key source of information during engaging a customer at an initial stage for business relationship. This include identification and verification of customers and on-going due diligence during the course of a business relationship. Each FI must collect information relating to customer, according to the level of risk involved, taking reasonable steps to verify that



information. Each FI shall have a procedure in place to set out how they will do this.

39. Information on customers or beneficial owner should be collected in accordance with section 12C of the MLPOC (Amendment) Act 2010.
40. Other sources of information may include:
  - a) experienced employees;
  - b) internet and media searches; and
  - c) commercial databases such as World Check.
41. Ongoing due diligence of the business relationship must be undertaken for existing non-PEP customers to identify any customers that have attained PEPs status during the course of the business relationship. Each FI shall have proper systems and processes in place to enable it to undertake this ongoing due diligence of existing customers.
42. When a PEP is no longer entrusted with a prominent public function, he or she may no longer be considered a PEP. However, each FI should continue to apply a risk-based approach to determine whether this customer who is no longer a PEP should continue to be treated as a high risk customer. Thus, each FI will choose to undertake EDD for a longer period for a former PEP due to assessed higher ML/TF risks associated with the customer.

#### **Reporting Requirements to the CBSI**

43. Each FI shall submit to the CBSI such report as will be required and, in the form, and frequency as the CBSI will prescribe.

#### **Enforcement and Corrective Measures**

44. The CBSI will monitor FIs for ML and FT risk management practices, through a combination of on-site examination and off-site supervision.
45. 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, will result in sanctions as provided under section 16 of the Financial Institution Act 1998 and section 12H of the MLPOC Act 2010 (as amended).
46. 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**

47. The effective date of this Prudential Guideline is June 27, 2019.

Issued this 27<sup>th</sup> day of **June** 2019.



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**Governor, Denton Rarawa**  
Central Bank of Solomon Islands



## **ANNEX 1: PEPs RED FLAGS / INDICATORS<sup>8</sup>**

### **DETECTING MISUSE OF THE FINANCIAL SYSTEM BY PEPs – RED FLAGS AND INDICATORS FOR SUSPICION**

#### **A. PEPs ATTEMPTING TO SHIELD THEIR IDENTITY:**

PEPs are aware that their status as a PEP may facilitate the detection of their illicit behaviour. This means that PEPs may attempt to shield their identity, to prevent detection.

Examples of ways in which this is done are:

- a) Use of corporate vehicles (legal entities and legal arrangements) to obscure the beneficial owner.
- b) Use of corporate vehicles without valid business reason.
- c) Use of intermediaries when this does not match with normal business practices or when this seems to be used to shield identity of PEP.
- d) Use of family members or close associates as legal owner.

#### **B. RED FLAGS AND INDICATORS RELATING TO THE PEP AND HIS BEHAVIOUR:**

Specific behaviour and individual characteristics of PEPs may raise red flags / risk levels or cause a suspicion:

- a) Use of corporate vehicles (legal entities and legal arrangements) to obscure *i)* ownership, *ii)* involved industries or *iii)* countries.
- b) The PEP makes inquiries about the institution's AML policy or PEP policy.
- c) The PEP seems generally uncomfortable to provide information about source of wealth or source of funds.
- d) The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries.
- e) The PEP is unable or reluctant to explain the reason for doing business in the country of the financial institution.
- f) The PEP provides inaccurate or incomplete information.
- g) The PEPs seek to make use of the services of a financial institution that would normally not cater to foreign or high value clients.
- h) Funds are repeatedly moved to and from countries to which the PEPs does not seem to have ties with.
- i) The PEP is or has been denied entry to the country (visa denial).
- j) The PEP is from a country that prohibits or restricts its/certain citizens to hold accounts or own certain property in a foreign country.

#### **C. THE PEP'S POSITION OR INVOLVEMENT IN BUSINESSES:**

The position that a PEP holds and the manner in which the PEP presents his/her position are important factors to be taken into account. Possible red flags are:

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<sup>8</sup> FATF Guidance, June 2013, on Politically Exposed Persons

- a) The PEP has a substantial authority over or access to state assets and funds, policies and operations.
- b) The PEP has control over regulatory approvals, including awarding licences and concessions.
- c) The PEP has the formal or informal ability to control mechanisms established to prevent and detected ML/TF.
- d) The PEP (actively) downplays importance of his/her public function, or the public function s/he is relates to associated with.
- e) The PEP does not reveal all positions (including those that are *ex officio*).
- f) The PEP has access to, control or influence over, government or corporate accounts.
- g) The PEP (partially) owns or controls financial institutions, either privately, or *ex officio*.
- h) The PEP (partially) owns or controls the financial institution (either privately or *ex officio*) that is a counter part or a correspondent in a transaction.
- i) The PEP is a director or beneficial owner of a legal entity that is a client of a financial institution.

**D. RED FLAGS AND INDICATORS RELATING TO THE INDUSTRY/SECTOR WITH WHICH THE PEP IS INVOLVED:**

A connection with a high-risk industry may raise the risk of doing business with a PEP. Competent authorities and financial institutions are required for determining which types of clients may be higher risk. For this, financial institutions will also be guided by national guidance or risk assessments. Which industries may be at risk depends on the risk assessments and varies from country to country, and on other industry safeguards that may be in place.

Examples of higher risk industries are:

- a) Arms trade and defense industry.
- b) Banking and finance.
- c) Businesses active in government procurement, *i.e.*, those whose business is selling to government or state agencies.
- d) Construction and (large) infrastructure.
- e) Development and other types of assistance.
- f) Human health activities.
- g) Mining and extraction.
- h) Privatization.
- i) Provision of public goods, utilities.

**E. BUSINESS RELATIONSHIP / TRANSACTION, PURPOSE OF BUSINESS RELATIONSHIP:**

Red flag and indicators can also relate to the specific business relationship or transaction:

- a) Multiple STRs have been submitted on a PEP.
- b) (Consistent) use of rounded amounts, where this cannot be explained by the expected business.



- c) Deposit or withdrawal of large amounts of cash from an account, use of bank cheques or other bearer instruments to make large payments. Use of large amounts of cash in the business relationship.
- d) Other financial institutions have terminated the business relationship with the PEP.
- e) Other financial institutions have been subject to regulatory actions over doing business with the PEP.
- f) Personal and business-related money flows are difficult to distinguish from each other.
- g) Financial activity is inconsistent with legitimate or expected activity, funds are moved to or from an account or between financial institutions without a business rationale.
- h) The account shows substantial activity after a dormant period; or over a relatively short time; or shortly after commencing the business relationship.
- i) The account shows substantial flow of cash or wire transfers into or out of the account.
- j) Transactions between non-client corporate vehicles and the PEP's accounts.
- k) A PEP is unable or reluctant to provide details or credible explanations for establishing a business relationship, opening an account or conducting transactions.
- l) A PEP receives large international funds transfers to a gaming account. The PEP withdraws a small amount for gaming purposes and withdraws the balance by way of cheque.
- m) A PEP uses third parties to exchange gaming chips for cash and vice versa with little or minimal gaming activity.
- n) A PEP uses multiple bank accounts for no apparent commercial or other reason.

#### **F. PRODUCTS, SERVICE, TRANSACTION OR DELIVERY CHANNELS:**

Examples of products, industries, service, transaction or delivery channels, which are of a higher risk, irrespective of the type of customer are:

- a) Private banking.
- b) Anonymous transactions (including cash).
- c) Non-face-to-face business relationships or transactions.
- d) Payments received from unknown or un-associated third parties.

If these industries, products, service, transaction or delivery channels are used by PEPs, then this adds an additional risk factor (depending on the nature of the PEP). In addition to these examples, there are other products, industries, service, transaction or delivery channels that can become additionally vulnerable when used by PEPs.

Examples of these are:

- a) Businesses that cater mainly to (high value) foreign clients.
- b) Trust and company service providers.
- c) Wire transfers, to and from a PEP account that cannot be economically explained, or that lack relevant originator or beneficiary information.
- d) Correspondent and concentration accounts.
- e) Dealers in precious metals and precious stones, or other luxurious goods.
- f) Dealers in luxurious transport vehicles (such as cars, sports cars, ships, helicopters and planes).

- g) High end real estate dealers.

## **G. COUNTRY SPECIFIC RED FLAGS AND INDICATORS**

The following red flags and indicators relating to countries can be taken into account when doing business with a PEP:

- a) The foreign or domestic PEP is from a higher risk country
- b) Additional risks occur if a foreign or domestic PEP from a higher risk country would in his/her position have control or influence over decisions that would effectively address identified shortcomings in the AML/CFT system.
- c) Foreign or domestic PEPs from countries identified by credible sources as having a high risk of corruption.
- d) Foreign or domestic PEPs from countries that have not signed or ratified or have not or insufficiently implemented relevant anti-corruption conventions, such as the UNCAC, and the OECD Anti-Bribery Convention.
- e) Foreign or domestic PEPs from countries with a mono economies (economic dependency on one or a few export products), especially if export control or licensing measures have been put in place.
- f) Foreign or domestic PEPs from countries that are dependent on the export of illicit goods, such as drugs.
- g) Foreign or domestic PEPs from countries (including political subdivisions) with political systems that are based on personal rule, autocratic regimes, or countries where a major objective is to enrich those in power, and countries with high level of patronage appointments.
- h) Foreign or domestic PEPs from countries with poor and/or opaque governance and accountability.
- i) Foreign or domestic PEPs from countries identified by credible sources as having high levels of (organized) crime.