

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

**Prudential Guideline No. 16**

**On Money Laundering, Financing of Terrorism and Proliferating Financing Risk  
Management**

**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. In today's global economy, money laundering has potential devastating magnitudes on the economy, security and social aspects. Money laundering erodes confidence in financial institutions (FIs) and the underlying criminal activities like fraud, counterfeiting, drug trafficking, and corruption weaken the reputation and standing of any FI and damage the integrity and stability of the financial sector and the broader economy. Weak anti money laundering (AML) controls will also have reputational consequences to the financial system and the country<sup>1</sup>.
3. To keep pace with international initiatives it is essential that adequate consideration of goals and objectives of the Financial Action Task Force (FATF) recommendations with regards to adopting a risk-based approach in Money Laundering and Financing of Terrorism, and Proliferation Financing (ML, FT and PF hereafter) risk management are met and to assist each FIs in attempts to detect when and reduce the likelihood that each FI will be involved in financial crime activities.
4. It is important that FIs are aware of the risks incurred of being used, deliberately or inadvertently, for criminal activities, and this guideline essentially ensure FIs include ML, FT and PF risks within their overall risk management.
5. FIs should be committed to implement sound ML, FT and PF policies and procedures that are critical in protecting the safety and soundness of FIs and the integrity of the financial system.
6. The inadequacy or absence of sound ML, FT and PF risk management exposes FIs to serious risks, especially reputational, operational, compliance and concentration risks.
7. One of the functions of the CBSI is to "foster and to maintain a stable financial system". Therefore, the CBSI is setting minimum requirements for money laundering and finance terrorism risk management of FIs. Each FI is responsible for setting sound ML, FT and

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<sup>1</sup> Basel Committee on Banking Supervision – Sound Management of risks related to money laundering and financing of terrorism

PF risk management framework to combat the ML, FT and PF activities and provide required feedback to CBSI. CBSI will take appropriate action on major concern deemed risk to financial sector stability or undermining the safe keeping of depositor's fund.

### **Purpose of Prudential Guideline**

8. The requirements in this guideline are specified pursuant to section 8 of the Financial Institution Act 1998 (hereinafter 'the Act') as amended and section 11 of Money Laundering and Proceeds of Crime (Amendment) Act 2010 [the MLPOC (Amendment) Act 2010].
9. The guideline also incorporates the requirements of Basel Committee on Banking Supervision's Core Principles and Sound management of risks related to money laundering and financing of terrorism and the Financial Action Task Force (FATF) 40 recommendations relevant to Financial Institutions licensed by the CBSI.
10. The prudential guideline aims to provide each FI with minimum requirements to promote sound ML, FT and PF risk management practices.
11. The prudential guideline also aims to ensure that each FI is managed soundly and prudently by developing and having in place a sound ML, FT and PF Risk Management Framework that is aligned to the FI's strategy and business plans, and commensurate with the size, nature, complexity and risk profile of the FI's operations.
12. The prudential guideline sets out the minimum requirements on establishing a risk management framework comprising of systems, structures, processes and people within which the FI identifies, assesses, mitigates and monitors money laundering and terrorist financing risk.

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

13. The guideline requires each FI to implement an appropriate and risk management framework for ML, FT and PF which operates with a high degree of integrity, as a culture that promotes sound risk management is effective to maintain public confidence in the FI and simultaneously upholding the safety and soundness of the financial system.
14. The key requirements of this prudential guideline are that a FI must:
  - a) develop and implement an internal "ML, FT and PF Risk Management Framework 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.

### **Definitions**

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



16. **“Money Laundering”** – “Money laundering is the processing of criminal proceeds to disguise their illegal origin. This process enables the criminal to enjoy the profits without jeopardizing their source. Some of the examples of criminal proceeds are illegal arms sales, smuggling, and the activities of organized crime, including for example drug trafficking and prostitution rings, embezzlement, insider trading, and bribery and computer fraud schemes<sup>2</sup>.”
17. **“Terrorist”** - refers to any natural person who: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully; (ii) participates as an accomplice in terrorist acts ; (iii) organizes or directs others to commit terrorist acts ; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.<sup>3</sup>
18. **“Terrorist act”** - includes:<sup>4</sup>
- a) an act which constitutes an offence within the scope of, and as defined in one of the following treaties:
    - i. Convention for the Suppression of Unlawful Seizure of Aircraft (1970);
    - ii. Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1971);
    - iii. Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents (1973);
    - iv. International Convention against the Taking of Hostages (1979); (v) Convention on the Physical Protection of Nuclear Material (1980);
    - v. Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1988);
    - vi. Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (2005);
    - vii. Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf (2005);
    - viii. International Convention for the Suppression of Terrorist Bombings (1997); and
    - ix. International Convention for the Suppression of the Financing of Terrorism (1999).
  - b) any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a Government or an international organization to do or to abstain from doing any act.

<sup>2</sup> Definition according to FATF

<sup>3</sup> Definition according to FATF

<sup>4</sup> Definition according to FATF

19. **“Terrorist financing”** - is the financing of terrorist acts, and of terrorists and terrorist organizations.<sup>5</sup>
20. **“Proliferating financing”** - refers to the act of providing fund or financial services which are used, in whole or in part, for the manufacturing, acquisition, possession development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear chemical or biological weapons and their means of delivering and related materials ( including technologies and dual-used goods for non-legitimate purposes), in contravention of international laws or where applicable, international obligation.<sup>6</sup>
21. **“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.
22. **“Proxy Board”** – means the Country Head of a branch of a foreign incorporated FI.
23. **“Senior Management”** – means a team comprising of Chief Executive Officers/General Managers and senior executives/departmental managers whose combined efforts or conducts have impacts on the day-to-day administration and operations and has a significant impact on the sound and prudent management of the FI’s operations.
24. **“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.
25. **“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.

#### **Minimum Requirements: Risk-Based Approach**

26. A FI must identify, assess, and understand the ML, FT and PF risks relating to its operations, and should take preventive and appropriate action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the ML, FT and PF risks are mitigated effectively.
27. Each FI must develop preventive and mitigation measures that are related to the ML, FT and PF risks identified.
28. FIs must undertake a comprehensive assessment of its ML, FT and PF risks and develop appropriate risk management processes to mitigate the identified risks.

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<sup>5</sup> Definition according to FATF

<sup>6</sup> Definition according to FATF



29. Before providing a product or service to a customer, at a minimum, each FI should identify, assess and understand its ML, FT and PF risk with regard to the following;
- a) Its customer types;
  - b) The source of funds and source of wealth of its customers;
  - c) The business or occupation of its customers;
  - d) The types of products and services that it provides;
  - e) The methods by which it delivers designated product and services; and
  - f) The foreign jurisdictions with which it has dealings with.

### **Risk Management Framework**

#### **Money Laundering and Terrorist Financing Risk Management Framework**

30. The Board should take the lead in establishing a strong and effective risk management culture in combating money laundering and terrorist financing. The Board and senior management should establish a corporate culture, which is guided by strong risk management framework that supports and provides appropriate standards and incentives for managing risks associated with money laundering and terrorist financing.
31. To ensure effective risk management, the Central Bank requires that the senior management of each FI, with the approval of the board of directors, develop and implement a risk management framework that explicitly recognizes ML, FT and PF risk as a distinct risk to the FI and aims to efficiently manage it.
32. Each FI is required to develop, implement and maintain a risk management framework to address ML, FT and PF risks that is fully integrated into its overall risk management processes. The framework for risk management chosen by an individual FI should include policies, controls and procedures that enable them to identify, measure, monitor, control and mitigate effectively the ML, FT and PF risks that have been identified.
33. The Board and senior management should ensure that it understands the nature and complexity of the risks inherent in its products, services, customers and activities/business. A vital means of understanding the nature and complexity of ML, FT and PF risk is to have the components of the risk framework fully integrated into the overall risk management processes across all levels of the FI's operation including business levels, as well as into new business initiative's products, activities, processes and systems.
34. Each FI is required to establish an effective ML, FT and PF Risk Management Framework. The ML, FT and PF Risk Framework is the totality of systems, structures, processes and people that address the ML, FT and PF Risk Management process. The ML, FT and PF Risk Management Framework sets the scope for the ML, FT and PF risk management process and determines how the process can be established and maintained.
35. The risk management framework for ML, FT and PF should, at a minimum:

- a) be comprehensively and appropriately documented in the policies approved by the Board and should include definitions of ML, FT and PF risk and loss;
  - b) identify the FI's structure used to manage ML, FT and PF risk, setting out reporting lines and individuals' responsibilities and accountabilities;
  - c) define the FI's risk assessment tools and indicate how they are used;
  - d) define the FI's appetite and tolerance limits for ML, FT and PF risk in its activities and detail the approved risk mitigation strategies and instruments;
  - e) describe the FI's approach to establishing and monitoring thresholds or limits for inherent and residual risk exposure;
  - f) establish risk reporting and Management Information Systems (MIS);
  - g) define ML, FT and PF risk terms to ensure consistency of risk identification, exposure rating and risk management objectives;
  - h) provide for appropriate independent review and assessment of ML, FT and PF risk; and
  - i) require that policies be reviewed whenever a material change in the ML, FT and PF risk profile of the FI occurs and revised as appropriate.
36. Each FI is required to develop as part of its ML, FT and PF Risk Management Framework, an Anti-Money Laundering Policy ("AML Policy") that outlines the FI's approach to managing ML, FT and PF risk and the processes involved.
37. The internal AML Policy, at a minimum must include measures for:
- a) Customer Due Diligence, in compliance with section 12 of the MLPOC (Amendment) Act 2010;
  - b) Intermediaries or third parties' dealings in compliance with section 12 of the MLPOC (Amendment) Act 2010;
  - c) On-going Monitoring of Transactions and Business relationships as per the requirements of section 12 of the MLPOC (Amendment) Act 2010;
  - d) Cross-border correspondent banking relationships as per the requirements of section 12 of the MLPOC (Amendment) Act 2010;
  - e) Record Retention as per the requirements of section 13 of the MLPOC (Amendment) Act 2010;
  - f) Recognition and Reporting of Suspicious Transactions in compliance with the requirements of section 14 of the MLPOC (Amendment) Act 2010;
  - g) Reporting of suspicious transaction activity or attempted transaction activity by a terrorist organization, in any form or manner in which the transaction or transfer was conducted as per the requirements under section 14 of the MLPOC (Amendment) Act 2010;
  - h) Reporting of suspicious transaction activity or attempted transaction activity with no legitimated purposes as per the requirements under section 14 of the MLPOC (Amendment) Act 2010;
  - i) Reporting of suspicious transaction activity or attempted transaction activity in any form or manner in which the transaction or transfer was conducted as per the requirements under section 14 of the MLPOC (Amendment) Act 2010;
  - j) Establish and maintain internal reporting procedures in compliance with the requirements of section 15 of the MLPOC Act 2002;



- k) The development and launch of new products and new business practices, including new delivery mechanism and the use of new or developing technologies for both new and pre-existing products. Furthermore, FIs must undertake ML, FT and PF risk assessments prior to the launch of the product, processes and technologies that may arise from the provision of this new product, and take appropriate measures to manage and mitigate these risks; and
  - l) Training Program for all FI's officers and employees on AML, CFT and PF.
38. Furthermore, each FI must ensure that its internal AML Policy complies with all requirements outlined in the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and the prudential guideline.
39. The AML Policy must be documented, easily understood, auditable, accessible to all staff and reflective of the size, complexity and nature of the FI's ML, FT and PF risk profile and exposure.
40. FIs must regularly review and update the documents, data or information collected under their internal AML Policy.

#### **Roles of the Board**

41. The Board or Proxy Board has ultimate responsibility and accountability for driving the governance culture and ensuring the FI's compliance with this prudential guideline and the MLPOC Act 2002 and MLPOC (Amendment) Act 2010.
42. 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 ML, FT and PF risks to prudent levels.
43. At a minimum, the responsibilities of the Board or Proxy Board include but are not limited to;
- a) Ensure the safety and soundness of the FI;
  - b) Must approve and maintain an AML Policy that ensures and monitors compliance with the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and Guidelines designed to combat ML, FT and PF.
  - c) Ensure that an appropriate, adequate and effective system for ML, FT and PF risk management and internal control is established, implemented, maintained and documented by Senior Management.
  - d) Identify and understand the ML, FT and PF risks faced by the FI, take measures to mitigate those risk;
  - e) Ensure that ML, FT and PF risks are appropriately managed by Senior Management;
  - f) Approve the policies and procedures for the evaluation and management of ML, FT and PF risk;
  - g) Review and approve the ML, FT and PF Risk Management Framework annually or whenever there are changes in circumstances that could impact on ML, FT and PF risk;
  - h) Ensure compliance of AML Policy;

- i) Allocate enough resources to effective implementation of AML Policy compliance; and
- j) Monitor and review functions of the Internal Audit Function.

### **Roles of Senior Management**

- 44. The Senior Management is held accountable for the FI's operations and to ensure that the FI's policy, process and procedures on ML, FT and PF are appropriately designed and implemented, and are effectively operated to minimize the risk of the FI being used in connection with ML, FT and PF.
- 45. The Chief Executive Officer is primarily responsible for ensuring that the FI has an internal 'AML Policy', whether it be an adaptation of the Group's Policy or the development of a separate Policy;
- 46. The Members of Senior Management of the FI is responsible for smooth administration and operations of the FI. At a minimum, the key delegated responsibilities include:
  - a) Developing or adaptation and implementation of effective internal policies, procedures, processes or systems and controls that identify, assess, manage or monitor the ML, FT and PF risks of the FI;
  - b) Ensuring that all procedures, processes and policies on ML, FT and PF are clearly communicated through all relevant levels of the FI;
  - c) implementing ML, FT and PF risk management strategies and policies approved by the Board;
  - d) Promoting the safety and soundness of the FI by ensuring the FI's full compliance with MLPOC Act 2002 and MLPOC (Amendment) Act 2010, and guidelines as well as the in-house policies and procedures;
  - e) monitoring appropriateness, adequacy and effectiveness of the ML, FT and PF risk management system;
  - f) Monitor the achievement and provide the Board or Proxy Board with sound advice on the material changes to procedures and policies for compliance with ML, FT and PF laws and guidelines as well as the effectiveness of the AML Policies and controls of the FI;
  - g) Promoting the safety and soundness of the FI, understanding the regulatory environment to counter ML, FT and PF, and ensuring that the FI maintains a close and open relationship with the Central Bank;
  - h) Ensuring the adequacy of the human resources with providence of training on an ongoing basis to ensure that they are aware of the laws, policies and procedures relating to ML, FT and PF guidelines, current developments and changes made;
  - i) Assist and cooperate with the relevant law enforcement authorities in Solomon Islands such as Financial Intelligence Unit and Royal Solomon Island Police Force, in investigating money laundering and terrorist financing activities; and
  - j) Ensuring that the Board or Proxy Board is kept well informed, including of correspondence with the Central Bank and breaches or potential breaches of the Central Bank's prudential requirements, and on all of the above requirements.



## **Roles of the AML Compliance Officer**

47. Each FI must appoint an AML compliance officer in pursuant to section 15 of the MLPOC Act 2002.
48. The AML compliance officer must have the necessary knowledge and expertise to effectively discharge his/her roles and responsibilities, including being informed of the latest developments in ML, FT and PF techniques and the AML/CFT and PF measures undertaken by the industry.
49. Each FI must ensure that the roles and responsibilities of the compliance officer are clearly defined and documented.
50. The AML compliance officer has a duty to ensure, at minimum, the following:
  - a) Ensuring the FI's compliance with the ML, FT and PF Act and regulations;
  - b) Proper implementation of the AML/CFT and PF policies;
  - c) The appropriate AML/CFT and PF procedures, including CDD, record keeping, ongoing due diligence, reporting of suspicious transactions and combating the ML, FT and PF, are implemented effectively;
  - d) The AML/CFT and PF mechanism is regularly assessed to ensure that it is effective and sufficient to address any changes in ML, FT and PF trends;
  - e) Having timely access to customer identification data and other customer due diligence information, transaction records and other relevant information;
  - f) The channel of communication from the respective employees to the FI's compliance officer is secured and that information is kept confidential;
  - g) Internally generated suspicious transaction reports by the FI compliance officers are appropriately evaluated before submission to the Financial Intelligence Unit (FIU hereafter);
  - h) Reporting to the FIU, in the prescribed form and manner, any suspicious transactions or attempted transaction or the information to the FIU, as soon as possible but no later than two (2) working days from the date of forming the suspicion. Section 14 of the MLPOC (Amendment) Act 2010 sets out details on reporting of suspicious transactions and activities;
  - i) That all employees and officers are aware of the laws, procedures and policies relating to money laundering and financing of terrorism, control mechanism and the channel of reporting;
  - j) The identification of ML, FT and PF risks associated with new products or services or arising from the FI's operational changes, including the introduction of new technology and processes; and
  - k) To act as the main contact person for the FIU on behalf of the FI on AML/CFT measures.
51. To ensure the necessary communication with the FIU, each FI must inform, in writing, to the FIU on the appointment or change in the appointment of the compliance officer, including such details as the name, designation, office address; office telephone number, fax number, e-mail address and such other information as may be required.

52. It is recommended to designate at least one additional officer who is authorized to act as the compliance officer when the principal compliance officer is absent for any reason.

### **Internal Audit Function**

53. The board must ensure regular independent audits of the internal ML, FT and PF measures to test its procedures and systems for combating ML, FT and PF, and determine the effectiveness and compliance with the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and guidelines where applicable, the requirements of other relevant laws and prudential guidelines.
54. The Board must ensure that the roles and responsibilities of the auditor are clearly defined and documented.
55. The roles and responsibilities of the auditor include, at a minimum:
- a) checking and testing the compliance with, and effectiveness of the AML policies, procedures and controls;
  - b) assessing whether current measures are in line with the latest developments and changes to the relevant ML, FT and PF requirements;
  - c) attestation of the overall integrity and effectiveness of the written procedures, policies, systems, and controls and technical compliance with the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and guidelines;
  - d) transaction testing in all areas of the FI with emphasis on high-risk areas, products and services to ensure that the FI is complying with the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and guidelines;
  - e) assessment of the employees' knowledge of procedures, policies, systems, and controls;
  - f) assessment of the adequacy, accuracy, and completeness of employee training programs;
  - g) assessment of the adequacy and effectiveness of FI's process for identifying and reporting suspicious transactions and activities, and other reporting requirements under the MLPOC Act 2002, MLPOC (Amendment) Act 2010 and guidelines;
  - h) submit a written audit report to the Board to highlight the assessment on the effectiveness of ML, FT and PF measures and any inadequacy in internal controls and procedures; and
  - i) ensure that records of such audit findings and the necessary corrective measures undertaken are kept and made available to the Financial Intelligence Unit and the CBSI once requested.

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

56. Each FI must 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**

57. The CBSI will monitor FIs for sound ML, FT and PF risk management practices, through a combination of on-site examination and off-site supervision.
58. 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 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).
59. 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**

60. 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