

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

**Prudential Guideline No. 18**

On AML/CFT requirements for Dealing with Higher Risk Countries

**Applicability**

1. The Prudential Guideline is applicable to Financial Institutions licensed and deemed licensed by the Central Bank of Solomon Islands (CBSI).

**Background**

2. Financial Institutions are required 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) to monitor business relations and transactions with natural persons, legal entities and arrangements in higher risk countries and countries that do not have adequate systems in place to prevent or deter money laundering (ML), terrorist financing (TF) and weapons of mass destruction proliferation financing (PF).

**Objective**

3. The objective of this Guideline is to provide minimum requirements related to dealing with higher risk countries so that the Solomon Islands financial sectors are protected from Money Laundering, Terrorist Financing and Proliferation Financing risks emanating from these countries.
4. The Prudential Guideline provides minimum requirement for dealing with higher risk countries to safeguard FIs comply with international best financial practices in terms of AML/CFT and PF.

**Definition**

5. As used in this Prudential Guideline the following terms, unless otherwise clearly indicated by the context, have the meanings specified below.
6. **“Financial Intelligence Unit”** - means the Financial Intelligent Unit (FIU) of Solomon Islands.

7. **“Higher Risk Country”** - means jurisdiction with strategic AML/CFT and PF deficiencies that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan.<sup>1</sup>
8. **“Money Laundering”** - means 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>.
9. **“Terrorist Financing”** - means the financing of terrorist acts, and of terrorists and terrorist organizations.<sup>3</sup>
10. **“Proliferating Financing”** - means or 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>4</sup>

#### **Enhanced Due Diligence when Dealing With Higher Risk Countries.**

11. Financial institutions must give special attention to and apply enhanced due diligence, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions and non-face to face customers), and those acting on their behalf, from countries for which this is called for by the Financial Action Task Force (FATF) or other higher risk countries as identified by the FIU.
12. Enhanced due diligence consists of enhanced customer due diligence (CDD) as outlined in section 12 of the Money Laundering and Proceeds of Crime Act 2010 (as amended). This includes enhanced:
  - (i) scrutiny of a customer’s identity (including of the beneficial owner and controller);
  - (ii) scrutiny of the source and legitimacy of funds;
  - (iii) transaction monitoring; and
  - (iv) customer profiling.

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<sup>1</sup> Definition according to FATF

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

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

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

13. The FIU will inform financial institutions from time-to-time of countries that have been identified by FATF as having inadequate systems for preventing and deterring ML, TF and PF.
14. Financial institutions must apply to the FIU and receive no objection from FIU when dealing or attempting to deal with:
  - (i) higher risk countries or countries identified by FATF or the United Nations Security Council Resolutions;
  - (ii) higher risk countries or a country, certain persons or activities, certain products, service or payment delivery mechanisms identified by the FIU; and
  - (iii) persons, entities and countries identified pursuant to the Money Laundering and Proceeds of Crime Act 2002.
15. Financial institutions must report any suspicious transactions or attempted suspicious transactions arising from the above measures to the FIU.

#### **Internal Controls and Systems**

16. Financial institutions must adopt, document and implement effective internal controls and systems to deter and prevent ML, TF and PF taking into account the risk of ML, TF and PF associated with doing business with or conducting transactions with natural and legal persons (including beneficial owner and controller) and financial institutions in higher risk countries or countries identified by FATF, UNSCR and the FIU.
17. For the purposes of section 15 of the MLPOC Act 2002, financial institution's compliance and audit function must include the requirements of this Guideline.

#### **Oversight and Implementation**

18. The FIU and/or the relevant supervisory authority, in the course of its supervision, will assess the compliance of financial institutions with the requirements of this Guideline.

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

19. The CBSI will monitor FIs for sound practice in dealing with higher risk countries, through a combination of on-site examination and off-site supervision.
20. 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 result in sanctions as provided under section 16 of the Financial Institution Act 1998 and section 12(h) of the MLPOC Act 2010 (as amended).

21. 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**

22. 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