CENTRAL BANK OF SOLOMON ISLANDS
Financial System Regulations Department

Prudential Standard No. 1
Governance

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1. Introduction

General stipulations

1. This Prudential Standard (PS) forms part of the Central Bank of Solomon Islands' (CBSI) standards governing the conduct of Banks in Solomon Islands. The requirements in this PS are specified pursuant to section 8 of the Financial Institution Act 1998 (the Act) as amended, to ensure that a bank effectively establishes and operates a sound corporate governance framework.

2. Part III of the Financial Institutions Act 1998 states that in determining whether or not a bank carries on its business in a prudent manner, the CBSI shall have regard to internal controls and risk management and such other matters as the CBSI considers relevant.

Objectives and key requirements

3. This PS establishes the CBSI's minimum requirements for the establishment and operation of an effective governance framework within all licensed banks.

4. The standard aims to ensure that each bank is managed soundly and prudently by a competent Board, that can make rational and impartial business decisions in the best interests of the bank, its depositors and stakeholders. The prudential standard is also aimed at promoting accountability and transparency in banks business operations, outlining sound corporate governance principles and practices to be applied, and covers the roles and responsibilities of the Board of Directors (Board) and the Senior Management of a bank, and its control functions.

Applicability[1]

5. The PS is applicable to banks licensed by the CBSI under the Act. Notwithstanding that a bank may meet these Standards, the CBSI may by order, direct the bank to take specific actions with regards to its governance framework. A bank should furthermore inform CBSI when it becomes aware of a significant breach of, or material deviation from, the governance framework, or when the framework does not adequately address a material risk.

[1] The requirements set out in Sections 4 to 8 shall not apply to Foreign Incorporated Banks, except where specifically indicated otherwise.

Enforcement and corrective measures

6. A bank which fails to comply with the requirements contained in this PS, or which submits reports to the CBSI which are materially inaccurate will be considered as following unsound and unsafe practices as provided in Section 16 (1) (a) of the Act.

7. The CBSI may pursue any or all corrective measures as provided in Section 16 of the Act to enforce the provisions of this PS 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 financial institution.

References

8. This PS should be specifically applied in conjunction with other Prudential Standards issued by CBSI.

Effective Date

The effective date of this PS is 30th June 2024
Issued this 17th day of May 2024

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Central Bank of Solomon Islands

Abbreviation

CBSI – Central Bank of Solomon Islands

CEO – Chief Executive Officer

CRO – Chief Risk Officer

PS – Prudential Standard

RAF- Risk Appetite Framework

RAS – Risk Appetite Statement

RMF – Risk Management Framework

SI – Solomon Islands

2. Definition of Terms

9. "Affiliate" includes any legal entity over which the bank, either directly or indirectly, holds more than 50% (fifty percent) of voting shares of the legal entity.
    i. Holds or has power to vote at least 20% (twenty percent) but not more than 50% (Fifty percent) of the outstanding voting shares of the legal entity; or
    ii. Has the power or ability to exert influence over the policies of the legal entity.

10. "Board"/ "Board of Directors" means the highest body of authority in a bank responsible for oversight and strategic guidance of the bank, effectively monitoring management and properly accounting to shareholders.

11. "Chief Executive Officer" means the most senior level of management of the bank who effectively manages that bank in Solomon Islands, including a Country Lead, a Country Manager, a General Manager or any similar designation accorded to an officer who heads the bank's business in Solomon Islands.

12. "Director" means a person holding office as a director of the bank, or in conjunction with other directors acting as a Board of Directors, having powers necessary for providing oversight of management of the business and affairs of the bank.

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

14. "Foreign Incorporated Bank" means a bank incorporated outside Solomon Islands which has been licensed as a branch to conduct business in Solomon Islands.

15. "Group[2]" means a bank plus all its subsidiaries and affiliates.

16. "Independent Director" is a non-executive director who is free from any business or other association that could materially interfere with the exercise of their independent judgement. An independent director:
    a) is not a substantial shareholder of the institution, or otherwise associated with a substantial shareholder[3];
    b) is not employed or has not been employed for the preceding three years by the bank or its subsidiary in any executive capacity;
    c) is not a member of the immediate family of an individual who is or has been in any of the past three years employed by the bank or the group in an executive capacity;

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[2] The term group or parent can be used interchangeably

[3] A substantial shareholder has the ability to control or influence management

d) is not a professional advisor to the bank or the group other than in a director capacity, or has not been a professional advisor for the preceding three years;

e) is not a significant customer or significant supplier of the bank, nor is associated with them; or

f) has no significant contractual relationship with the bank or Group, other than as a director.

17. "Non-Executive Director" means a director who does not have management responsibilities within the licensed entity or its subsidiaries.

18. "Proxy Board" means the Country Head of a branch of a foreign incorporated bank.

19. "Related Party" a related party of a bank means an entity which could give rise to risk to the bank due to conflicts means of interest and contagion, where the risk would not arise if the bank were dealing with an unrelated entity. A related party of a bank includes, but is not limited to, any of the following:

Legal persons

(a) Bank's direct and indirect subsidiaries, associates, joint ventures, substantial interests, and special purpose entities;

(b) Bank's holding company (parent) and its direct and indirect subsidiaries, associates, joint ventures and substantial interests;

(c) Any other entity (including their subsidiaries, associates, substantial interests and special purpose entities) that the bank exerts control over or that exerts control over the FI;

(d) Any entity where the natural persons listed at (e), (f) and (g) are large shareholders.

Natural persons

(e) A natural person who is a large shareholder of the bankor its holding company;

(f) a director or member of the senior management of entities listed at (a), (b) and (c) above; and

(g) an immediate family member of a natural person listed at (e) or (f) above, which includes any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister- in-law of such a person.

20. "Risk appetite" means the aggregate level and types of risk a bank is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.

21. The "risk appetite framework (RAF)" means the overall approach, including policies, processes, controls and systems, through which risk appetite is established, communicated and monitored. It includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those overseeing the implementation and

monitoring of the RAF. The RAF must consider material risks to the bank, as well as to its reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the bank's strategy.

22. The "risk appetite statement (RAS)" means the written articulation of the aggregate level and types of risk that a bank will accept, or avoid, in order to achieve its business objectives. It includes quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It must also include qualitative statements to address reputation and conduct risks as well as money laundering and unethical practices.

23. In the "Three lines of defense" the business line –the first line of defense – has "ownership" of risk, whereby it acknowledges and manages the risk that it incurs in conducting its activities. The risk management function is responsible for further identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense, independently from the first line of defense. The compliance function is also deemed part of the second line of defense. The internal audit function is charged with the third line of defense, conducting risk-based and general audits and reviews to provide assurance to the board that the overall governance framework, including the risk governance framework, is effective and that policies and processes are in place and consistently applied.

24. "Risk capacity" means the maximum amount of risk a bank is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints.

25. "Risk culture" means a bank's norms, attitudes and behaviors related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assumed.

26. "Risk limits" are specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the bank's aggregate risk to business lines, legal entities as relevant, specific risk categories, concentrations and, as appropriate, other measures.

27. "Risk management" means the processes established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.

28. "Risk profile" means a point-in-time assessment of a bank's gross risk exposures (i.e., before the application of any mitigants) or, as appropriate, net risk exposures (i.e., after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions.

29. "Senior Management" means officers holding Senior Management responsibilities that may materially affect the whole or a substantial part of the bank's business or financial standing. In the case of a "Foreign Incorporated Bank", the Head Office of the bank shall designate officers including the Chief Executive Officer who would constitute the Senior Management for the bank's operations in Solomon Islands.

30. "Subsidiary" shall have the same meaning as defined in Prudential Standard on Related Party Transactions.

31. "Extraordinary meetings" means any meeting of the Board 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.

3. Governance framework

32. An bank must establish and implement a framework for corporate governance, approved by its Board. In developing its framework, each bank must consider its size, nature, scope, complexity, and risk profile.

33. The framework must contain the following minimum corporate governance requirements:
    a) clearly defined authorities, roles and responsibilities of the Board and Board Committees[4];
    b) clearly defined roles and responsibilities of Senior Management.
    c) clearly defined Board composition requirements and the selection and qualification requirements for directors (including fitness and propriety assessment processes);
    d) clearly defined procedures for the selection, approval, renewal and succession of Board and Senior Management;
    e) clearly defined procedures for dealing with conflicts of interests;
    f) establishment and approval of internal codes of conduct, ethical standards and corporate values for the Board, Senior Management and staff; and
    g) governance of group structures.

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[4] In the case of a "Foreign Incorporated Bank", this requirement will be applied to the local senior management of the bank in-charge of the bank's business in Solomon Islands.

4. The Board of Directors

The role of the Board

34. The Board of Directors (or hereafter just "Board") of a bank is ultimately responsible for the bank's risk management framework and is responsible for the oversight of its operation by management.

35. The responsibilities of the Board shall include but not be limited to[5]:
    a) developing and implementing a formal Board charter which defines the Board's purpose, powers, and key roles and responsibilities;
    b) developing and implementing formal Board committee charters which defines the committees' purpose, powers, and key responsibilities;
    c) reviewing and approving the bank's organizational structure, business objectives, strategies, plans, and risk management framework (RMF);
    d) ensuring that the bank has policies covering all aspects of its operations and reviewing and approving credit, liquidity, funding, capital, and other risk management policies;
    e) approving the risk appetite framework (RAF);
    f) promoting the safety and soundness of the FI, understanding the regulatory environment and ensuring that the FI maintains a proactive relationship with the CBSI; 10
    g) ensuring that the bank has the necessary back-ups, including contingency and succession plans, for business operations and for key personnel to ensure the bank continues operations unimpeded;
    h) appointment, performance review, and compensation of the Chief Executive Officer (CEO) and other members of Senior Management;
    i) ensuring the bank must have adequate policies and practices for the selection, approval, renewal, performance review, compensation, and succession of Senior Management;
    j) providing oversight for Senior Management as part of the bank's checks and balances by monitoring Senior Management's actions and setting performance standards;
    k) ensuring the bank is a good corporate citizen in the host country in terms of compliance to all applicable SI laws, regulations, and the CBSI's prudential standards;
    l) ensuring that the bank has a formal conflict of interest policy and that it is regularly reviewed and upgraded;

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[5] In the case of a "Foreign Incorporated Bank" this requirement shall apply to the parent bank's board or any other authority within the bank to which the parent bank's board has delegated this function. Furthermore, in a "Foreign Incorporated Bank" all the risk management elements enumerated in this paragraph shall be identified and implemented separately in relation to the bank's operations in Solomon Islands. Wherever relevant, a separate documentation of the policies, procedures and frameworks regarding these elements shall be maintained in Solomon Islands for easy verification by the CBSI.

m) ensuring the bank's internal policies and contractual arrangements do not explicitly or implicitly restrict or discourage auditors and other parties from communicating with the CBSI;
n) ensuring that the bank has adequate accounting, management information system, and contingency plans consistent with the size and scope of the bank's operations;
o) ensuring that, as part of the governance framework, establishes Board committees and ensuring that such committees have their own documented and formalized charter with clear responsibilities, reporting requirements, and delegated authorities.
p) in the case of banks operating in SI as branches of foreign incorporated banks, copies of all reports and deliberations of Board committees are sent to the bank's Parent/Group office for review;
q) ensuring the banks have on-going training and development of directors and Senior Management;
r) ensuring the banks have independent and adequate resourcing of the internal audit functions; and
s) reviewing the external audit plan, the audit fees, and the scope of the audit engagement

36. The Board must ensure that Senior Management facilitates training programs 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.

37. A face-to-face (physical) meeting of the Board must occur at least annually with at least 75% of directors present.

38. The Board and the CEO must notify the CBSI of any material changes in governance matters. The Board policies of the bank must not prevent members of Board or Senior Management from notifying the CBSI at any time about material concerns. The Board and Senior Management shall furthermore be available to meet with CBSI on request.

39. 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.

40. Where a bank including a "Foreign Incorporated Bank" utilizes 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 SI and such arrangement as a minimum satisfy the intent of these requirements.

41. The Board must ensure the bank maintains a positive image within the industry and the economy as a whole. To this extent, therefore, the bank is expected to provide adequate services and facilities both efficiently and competitively in line with safe and sound practices.

Risk appetite, management and control

42. The Board is responsible for[6] overseeing a strong risk management framework.

43. The Board shall take an active role in defining the risk appetite and ensuring its alignment with the bank's strategic, capital and financial plans and compensation practices.

44. A risk management framework includes well defined organizational responsibilities for risk management, typically referred to as the three lines of defense.

45. The Board should ensure that the risk management, compliance and internal audit functions are properly positioned, staffed and resourced and carry out their responsibilities independently, objectively and effectively.

46. In the Board's Oversight of the risk management framework, it should regularly review key policies and controls with Senior Management and with the heads of the risk management, compliance and internal audit functions to identify and address significant risks and issues as well as determine areas that need improvement.

Senior Overseas Officer

47. Branches of foreign banks licensed and operating in SI must nominate a senior officer of the corporate bank entity head office with delegated authority from the Board to be responsible for overseeing the SI branch operation. This "Senior Overseas Officer" may be a senior executive or non-executive director of the corporate bank entity.

48. The designated senior officer must travel to the SI at least annually and meet with the CBSI.

Board composition

49. The size of the 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, but at a minimum consist of at least five directors at all times.

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[6] In the case of a "Foreign Incorporated Bank" this requirement shall apply to the parent bank's board or any other authority within the bank to which the parent bank's board has delegated this function.

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

51. The Board chairperson must be an independent director.

52. The separation of the Board chairperson and the CEO are critical, furthermore the Board chairperson cannot have been the CEO of the bank at any time during the previous three years.

53. The majority of the directors must be non-executive, and at least half of those non-executive directors should be independent. This implies that all bank's should have a minimum of two independent directors.

54. At least two directors must be SI citizens for a locally incorporated bank.

55. If the Board of a bank is in doubt about a director's independence for the purpose of this PS, the bank may refer the matter to CBSI for guidance.

56. Non-executives (including independent directors) should constitute the majority of directors present and eligible to vote at any Board meeting.

57. The Board must ensure that directors and Senior Management of the institution collectively have the full range of skills needed for the effective and prudent operation of the institution, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes. This includes the requirement for directors, collectively, to have the necessary skills, knowledge and experience to understand the risks of the institution, including its legal and prudential obligations, and to ensure that the institution is managed in an appropriate way taking into account these risks. This does not preclude the Board from supplementing its skills and knowledge by engaging external consultants and experts.

58. The 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.

59. 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.

60. Board directors and candidates should not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:
    a) other persons (such as management or other shareholders);
    b) past or present positions held; or
    c) personal, professional or other economic relationships with other members of the Board or management (or with other entities within the group).

Board selection, assessment and renewal

61. The bank must have adequate policies and procedures for the selection, approval, renewal and succession of directors.

62. There must be fitness and propriety assessment undertaken and no-objection obtained from the CBSI, prior to appointing directors of the bank.

63. The bank should notify the CBSI on the Board composition per the 1st of January of each year, with an overview of names of all non-executive directors, and thereby indicate which directors are considered to be independent directors. The notification should be received no later than the 14th of January.

64. The bank 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 program on the bank's business and risk profile, risk management, governance practices, and internal controls.

65. The Board must carry out regular and at least annual assessments – alone or with the assistance of external experts – of the Board as a whole, its committees and individual Board members, and:
    a) review its structure, size and composition as well as committees' structures and coordination;
    b) assess the ongoing suitability of each Board member, also taking into account his or her performance on the Board;
    c) either separately or as part of these assessments, review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and
    d) use the results of these assessments as part of the ongoing improvement efforts of the Board and, where required by the supervisor, share results with the supervisor.

66. The Board of a bank must have in place a formal policy on Board renewal. This policy must provide details of how the Board intends to renew itself in order to ensure it remains open to new ideas and independent thinking, while retaining adequate expertise. The policy must give consideration to whether directors have served on the Board for a period that could, or could reasonably be perceived to, materially interfere with their ability to

act in the best interests of the institution. The policy must include the process for appointing and removing directors, including the factors that will determine when an existing director will be re-appointed.

Board committees[7]

67. Each 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 may delegate certain duties to the Board committees but assumes responsibility for the decisions of the committees.

68. The Board must ensure that the bank has the following committees to be in place: Audit Committee, Risk Management Committee, and Remuneration Committee.

69. The Board must ensure that the mandate and operating procedures for each Board committee are set out in the Board or specific committee charter which clearly:
    a) outline the areas of authority delegated to the Board committee;
    b) schedule of meetings;
    c) define reporting arrangements for keeping the Board informed of the work of the Board committees, key discussions and decisions on delegated matters; and
    d) define charter review and revision procedures.

70. The summary of the charter and membership of each Board committee must be published in the annual report.

71. 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.

72. Board committees must be free to take independent external professional advice as and when deemed necessary at the bank's cost.

73. 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.

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[7] In the case of Locally incorporated FIs and subsidiaries

Audit Committee

74. At a minimum, the Audit Committee as a whole should possess a collective balance of skills and expert knowledge – commensurate with the size and complexity of the bank and the duties to be performed – and should have relevant experience in financial reporting, accounting and auditing.

75. An audit committee should:
   a) be distinct from other committees;
   b) be composed of at least three members;
   c) have a Chair who is independent and is not the Chair of the Board or of any other committee;
   d) be made up entirely of non-executive directors; and
   e) include members who have experience in audit practices, financial reporting and accounting.

76. The audit committee is, in particular, responsible for:
   a) framing policy on internal audit and financial reporting, among other things;
   b) overseeing the financial reporting process;
   c) providing oversight of and interacting with the bank's internal and external auditors;
   d) approving, or recommending to the board or shareholders for their approval, the appointment, remuneration and dismissal of external auditors;
   e) reviewing and approving the audit scope and frequency;
   f) receiving key audit reports and ensuring that Senior Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and other control functions;
   g) overseeing the establishment of accounting policies and practices by the bank; and
   h) reviewing the third-party opinions on the design and effectiveness of the overall risk management framework and internal control system.

Risk Management Committee

77. An FI's Risk Management Committee is responsible for:
   a) advising the Board on the FI's risk appetite;
   b) overseeing Senior Management's implementation of the Risk Appetite Statement (RAS);
   c) reporting on the state of risk culture in the bank;
   d) and interacting with and overseeing the Chief Risk Officer (CRO) function.

78. The Risk Management Committee should be distinct from the Audit Committee, but there must be effective communication and coordination between the two committees to facilitate the exchange of information and effective coverage of all risks, including

emerging risks, and any needed adjustments to the risk management framework of the bank.

79. The Risk Management Committee's mandated work must include oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank, to ensure they are consistent with the stated risk appetite.

80. The Risk Management Committee must:
   a) be composed of at least three members;
   b) have a Chair who is an independent director and not the chair of the Board or of any other committee;
   c) should include members who have experience in risk management issues and practices;
   d) should assess all risk strategies on both an aggregated basis and by type of risk and make recommendations to the Board thereon;
   e) is required to review the bank's risk policies at least annually;
   f) should oversee that management has in place processes to promote the bank's adherence to the approved risk policies; and
   g) receive regular reporting and communication from the CRO and other relevant functions about the bank's current risk profile, current state of the risk culture, utilisation against the established risk appetite, and limits, limit breaches and mitigation plans.

81. The Risk Management Committee, must examine whether incentives provided by the bank's remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

Remuneration Committee

82. An ban's Remuneration Committee must oversee the remuneration policy and remuneration system's design and operation and assist the Board ensuring that remuneration is appropriate and consistent with the bank's culture, long-term business and risk appetite, performance and control environment, as well as with any legal or regulatory requirements.

83. The Remuneration Committee must be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create.

84. The Remuneration Committee must cooperate with the bank's Risk Management Committee in evaluating the incentives created by the remuneration system.

5. Remuneration Policy

85. The bank must maintain a Remuneration Policy for setting remuneration at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience and the nature and size of the bank.

86. The Remuneration Policy must outline the remuneration objectives and the structure of the remuneration arrangements, including, but not limited to, the performance-based components of remuneration.

87. For the purposes of this PS, remuneration arrangements include measures of performance, the mix of forms of remuneration (such as fixed and variable components, and cash and equity-related benefits) and the timing of eligibility to receive payments. All forms of remuneration are captured by this PS, regardless of where, or from whom, the remuneration is sourced.

88. The Remuneration Policy must set out who is covered by the Policy and should at a minimum cover:
    a) directors;
    b) Persons whose primary role is risk management, compliance, internal audit, financial control; and
    c) All other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the institution (at a minimum including executive directors and the CEO).

89. CBSI may determine that an individual or class of individuals must be covered by the Remuneration Policy.

90. Executive directors' remuneration must be clearly differentiated from that of non-executive directors.

91. Each bank 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.

92. The Remuneration Policy must ensure that the structure of the remuneration of risk and financial control personnel, including performance-based components if any, does not compromise the independence of these personnel in carrying out their functions.

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

94. The Remuneration Committee must review and make recommendations to the Board with agreed terms of reference on – and the effectiveness of - the FI's Remuneration Policy. The committee must also play an integral part in succession planning for key positions.

6. Senior Management

95. The Board, in fulfilling its functions may delegate authority to Senior Management to act on behalf of the Board with respect to certain matters, as decided by the Board. The delegation of authority must be clearly set out and documented. The Board must have mechanisms in place for monitoring the exercise of delegated authority. The Board cannot abrogate its responsibility for oversight of the functions delegated to management.

96. The Senior Management of the bank is responsible for the direct administration and operations of the bank. Key responsibilities include:
    a) developing business objectives, strategies, plans, organizational structure and controls, and policies for Board's consideration;
    b) implementing and monitoring the Board-approved business objectives, strategies, plans, controls, and policies;
    c) ensuring that all procedures, processes and policies are clearly communicated through all relevant levels of the bank;
    d) updating the organizational structure as and when changes are made, and informing the CBSI accordingly of the changes;
    e) establishing a structure that promotes accountability and transparency throughout the bank operations, and maintaining the effectiveness and independence of control functions;
    f) promoting, together with the Board, a sound corporate culture within the licensed entity which reinforces ethical, prudent and professional behavior;
    g) addressing actual or suspected breaches of regulatory requirements or internal policies in a timely manner;
    h) updating the Board regularly with the material information the Board needs, to carry out its oversight responsibilities, particularly on matters relating to:
        i. the performance, financial condition and operating environment of the licensed entity;
        ii. internal control failures, including breaches of risk limits; and
        iii. legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.
    i) acknowledging the independent duties of the Compliance Function and Internal Audit Function and not interfering with their fulfilment;
    j) administer and oversee the effective management of the bank to ensure that it operates in full compliance with all applicable SI laws, regulations, CBSI Prudential Standards, and the procedures established by the Board;

k) monitor the achievement of and provide the Board with sound advice on the organisational objectives, strategy, structure and significant policies, and the effectiveness of organisational structure and controls of the bank;
l) facilitate the Board's oversight role by providing relevant, accurate, and timely information to the Board on the bank's key risks, operations and risk management;
m) 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;
n) ensuring that employees have the appropriate level of training and that the bank has a training development framework; and
o) 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 to protect the reputation of the bank.

7. Conflicts of interest

97. The Board must oversee the implementation and operation of policies to identify potential conflicts of interest.

98. The Board should oversee and be satisfied with the process by which appropriate public disclosure is made, and/or information is provided to supervisors, relating to the bank's policies on conflicts of interest and potential material conflicts of interest.

99. Directors of banks 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.

100. The bank's conflict of interest policy must include:
a) a director's duty to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest;
b) examples of where conflicts can arise when serving as a director;
c) a director's duty to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
d) 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;
e) a rigorous review and approval process for directors to follow before they engage in certain activities (such as serving on another board) so as to ensure that such activity will not create a conflict of interest;
f) adequate procedures for transactions with related parties to be made on an arms-length basis;
g) a requirement on maintaining of an up-to-date register for recording and managing conflicts of interest; and
h) ensuring the bank has appropriate procedures for dealing with any non-compliance with the policy.

8. Governance of group structures

Parent companies

101. The Board of a bank that is parent company must:
   a) establish a group structure and a governance framework with clearly defined roles and responsibilities, taking into account the size and complexity of the group;
   b) define an appropriate subsidiary board and management structure which takes into account the material risks to which the group, its businesses and its subsidiaries are exposed;
   c) ensure the group's governance framework includes adequate policies, processes and controls and whether the framework addresses risk management across the businesses and legal entity structures;
   d) ensure that the group's governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions;
   e) approve policies and strategies for establishing new structures and legal entities, and ensure that they are consistent with the policies and interests of the group;
   f) ensure there are effective systems in place to facilitate the exchange of information among the various entities, to manage the risks of the separate subsidiaries or group entities as well as of the group as a whole, and to ensure effective supervision of the group;
   g) have sufficient resources to monitor the compliance of subsidiaries with all applicable legal, regulatory and governance requirements;
   h) maintain an effective relationship with both the home regulator and, through the subsidiary board or direct contact, with the regulators of all subsidiaries;
   i) establish an effective internal audit function that ensures audits are being performed within or for all subsidiaries and part of the group and group itself; and
   j) ensure that the group's governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions, in appropriate recognition of the interest of the group.

Subsidiaries

102. Subsidiary boards and Senior Management remain responsible for developing effective risk management processes for their entities.

103. Subsidiary boards and management must have appropriate input to the local or regional application of group strategy, governance and risk management.

104. Subsidiary boards must assess the compatibility of group policy with local legal and regulatory requirements and, where appropriate, amend those policies.

105. Subsidiary boards must make necessary adjustments to the local application of group strategies, governance and risk management, where a group policy conflicts with an applicable legal or regulatory provision or prudential rule, or would be detrimental to the sound and prudent management of the subsidiary.

9. Internal Audit[8]

106. The Board and Senior Management of a bank must, in regard to the internal audit function:
   a) provide full and unconditional access to any records, file data and physical properties of the bank, including access to management information systems and records and the minutes of all consultative and decision-making bodies;
   b) require the function to independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes;
   c) require internal auditors to adhere to national and international professional standards;
   d) require that audit staff collectively have or can access knowledge, skills and resources commensurate with the business activities and risks of the bank;
   e) require timely and effective correction of audit issues by Senior Management; and
   f) require the function to perform a periodic assessment of the bank's overall risk management framework, including but not limited to an assessment of:
      i. the effectiveness of the risk management and compliance functions;
      ii. the quality of risk reporting to the board and Senior Management; and
      iii. the effectiveness of the bank's system of internal controls.

107. The Board and Senior Management must protect the independence of the internal audit function by ensuring that:
   a) internal audit reports are provided to the board or its audit committee without management filtering and that the internal auditors have direct access to the Board or the Board's audit committee;
   b) the head of the internal audit's primary reporting line is to the Board (or its audit committee), which is also responsible for the selection, oversight of the performance and, if necessary, dismissal of the head of this function;
   c) if the head of internal audit is removed from his or her position, this should be disclosed publicly.

108. A bank must inform the CBSI immediately upon the removal of the head of internal audit and the reasons for such removal.

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[8] In the case of a "Foreign Incorporated Bank" this requirement shall apply to the parent bank's board or any other authority within the bank to which the parent bank's board has delegated this function. Furthermore, in a "Foreign Incorporated Bank" all the requirements concerning internal audit enumerated in this paragraph shall apply in relation to the bank's operations in Solomon Islands. Wherever relevant, a separate documentation of the policies, procedures and frameworks regarding these elements shall be maintained in Solomon Islands for easy verification by the CBSI.