

**Samoa: Detailed Assessment of Compliance with the Basel Core Principles  
for Effective Banking Supervision**

This Detailed Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision for Samoa was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in June 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Samoa or the Executive Board of the IMF.

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OFFSHORE FINANCIAL CENTER ASSESSMENT PROGRAM

SAMOA

DETAILED ASSESSMENT OF COMPLIANCE  
WITH THE BASEL CORE PRINCIPLES FOR  
EFFECTIVE BANKING SUPERVISION

JUNE 2007

INTERNATIONAL MONETARY FUND  
MONETARY AND CAPITAL MARKETS DEPARTMENT

Contents	Page
Glossary .....	3
Basel Core Principles .....	4
Information and methodology.....	4
Institutional framework.....	4
General preconditions for effective banking supervision .....	5
Principle-by-Principle Assessment .....	6
Recommended action plan and authorities’ response to the assessment .....	45
Authorities’ response to the assessment .....	49
 Tables	
1. Detailed Assessment of Compliance with the Basel Core Principles .....	6
2. Domestic Banking Sector: Summary of Compliance with the Basel Core Principles .....	43
3. International Banking Sector: Summary of Compliance with the Basel Core Principles ...	44
4. Domestic Banking Sector: Recommended Action Plan to Improve Compliance with the Basel Core Principles .....	45
5. International Banking Sector: Recommended Action Plan to Improve Compliance with the Basel Core Principles .....	47

**GLOSSARY**

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CBS	Central Bank of Samoa
CBSA	Central Bank of Samoa Act 1984
CP	(Basel) Core Principle
FATF	Financial Action Task Force
FIA	Financial Institutions Act 1996
FID	Financial Institutions Department of the Central Bank of Samoa
FIU	Financial Intelligence Unit
IBA	International Banking Act 2005
Inspector	Inspector of International Banks
MLA	Money Laundering Authority
MLPA 2000	Money Laundering Prevention Act 2000
MLPA 2007	Money Laundering Prevention Act 2007
PS	Prudential Statement issued by the Central Bank of Samoa
SAT	Samoan Tala
SIFA	Samoa International Financial Authority
SIFAA	Samoa International Financial Authority Act 2005

## BASEL CORE PRINCIPLES

1. With the concurrence of the Central Bank of Samoa (CBS) and the Samoa International Financial Authority (SIFA), the mission assessed compliance with the Basel Core Principles for Banking Supervision using the Core Principles Methodology. The assessment was conducted by Messrs. Ronald MacDonald (formerly Bank of England) and Timothy Sullivan (formerly Office of the Comptroller of the Currency of the United States).

### **Information and methodology**

2. The assessment of the compliance with the Basel Core Principles was based on the examination of the relevant laws and regulations; interviews with the management and staff of the CBS, SIFA, the Money Laundering Authority (MLA), and the Inspector of International Banks; and discussions with the Attorney General, the Chief Executive Officer of the Ministry of Finance, and representatives from the domestic and international banks. The assessment also considered the self-assessments of compliance with the Core Principles carried out by the CBS and the Inspector, respectively.

3. The assessment used the October 1996 Core Principles Methodology, rather than the October 2006 Core Principles Methodology, in order to allow a meaningful comparison with the results of the previous assessment conducted in 2002. However, subsequent assessments will be conducted using the October 2006 Core Principles Methodology and the mission has identified material new issues in the requirements of that methodology to which the CBS and the Inspector should give special attention.

4. The laws that were reviewed for the purposes of this assessment included:

Financial Institutions Act 1996,  
International Banking Act 2005,  
International Companies Act 1987, and,  
Central Bank of Samoa Act 1984.

The assessment also took into account the Money Laundering Prevention Act 2007, which was not reviewed in detail.

### **Institutional framework**

#### *Domestic banking sector*

5. There are four licensed banks operating in Samoa, all of which are locally-incorporated. The two largest are subsidiaries of major Australian banks and the remaining two are locally-owned institutions. Total assets of the commercial banks at end September 2006 were SAT 700.6 million of which SAT 562.9 million comprised loans and advances (80.3 percent of total assets). Deposits at the same date were SAT 530.8 million, giving a loan-to-deposit ratio of 106 percent. Liquidity has been of

concern to the system recently. Liquid assets represented 4.4 percent of domestic deposits at the end of September 2006. The average risk-weighted capital ratio for the commercial banking system at the end of September 2006 was 23.8 percent; all banks complied with the required 15 percent minimum ratio. Total past due loans represented 3.0 percent of the loan portfolio; total provisions represent 94.8 percent of non-performing loans. The commercial banking system has been profitable with system profits for the nine months ending September 2006 representing an annual return on net worth of approximately 22 percent and 3.8 percent on assets.

6. Besides the commercial banks there is a development bank that does not take deposits. Its assets at end-December 2006 were SAT 118.9 million. Another significant player in the financial sector is the National Provident Fund that had assets at end-December 2006 of SAT 328.8 million. At the end of December 2006 there were 18 credit unions registered with the Credit Union League and licensed with the domestic Registrar of Companies. There are four insurance companies operating in Samoa, some of which make loans. In addition there are several foreign exchange dealers and money lenders. The Development Bank, National Provident Fund, and the insurance companies were brought under CBS supervision in 2001.

#### *International banking sector*

7. There are six international banks operating in Samoa. These banks all operate with a B1 or B2 class license. The IBA allows B1, but not B2 licensees, to accept deposits from the public. In practice, however, none of the three current B1 licensees engages in public deposit-taking. All six international banks are primarily used for tax planning purposes and to carry out in-house treasury functions for their parent organizations.

8. All international banks now maintain a physical presence in Samoa. These offices hold records and accounts and have clerical employees, but do not appear to have any real local mind-and-management presence. The offices of the six international banks are maintained by trustee companies (company service providers) who also provide local directors for these banks.

9. At the end of 2005, total assets of the international banks were US\$111.9 million.

#### **General preconditions for effective banking supervision**

10. The land tenure system in Samoa represents a constraint in terms of enterprise financing since freehold land, which is the major type of collateral required by banks, accounts for only about four percent of the total land, while the largest part, about eighty percent, is customary land, and the rest government-owned. The laws and the court system, however, allow banks to promptly take possession of real property security on defaulting loans. There is a system for the registration of banks' ownership interests in motor vehicles. The court system is regarded as sound with legal firms of sufficient quality. The availability and reliability of financial data varies greatly but the new Companies Act is encouraging businesses to prepare financial statements within a

specified time. There is an active professional body of accountants in Samoa and international accounting and auditing standards are generally the norm. There is no deposit insurance in Samoa and depositors are treated as general creditors.

### Principle-by-Principle Assessment

11. The assessment, following the *Core Principles Methodology*, of the compliance with each principle is made on a qualitative basis based on existing laws and regulations, and practices. A five-part assessment system is used: compliant; largely compliant; materially noncompliant; noncompliant; and not applicable. **Compliant** is given whenever all essential criteria are generally met without any significant deficiencies. **Largely compliant** means that minor weaknesses exist but they are not seen as being of so significant a nature as to raise serious doubts about the authority's ability to achieve the objective of that principle in practice. **Materially noncompliant** is given when the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance, but substantive progress has been made. **Noncompliant** is given when no substantive progress toward compliance has been achieved, or when insufficient information was available to allow a reliable determination that substantive progress has been made toward compliance. **Not applicable** is given when, for any reason, a specific principle is not relevant for Samoa.

Table 1. Detailed Assessment of Compliance with the Basel Core Principles

<b>Principle 1.</b>	<b>Objectives, Autonomy, Powers, and Resources</b> An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to the authorization of banking establishments and their ongoing supervision; powers to address compliance with laws, as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.
<b>Principle 1(1)</b>	An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks.
	Domestic Banks
Description	The CBS is the sole agency with responsibility for supervising domestic banks. Section 3 of the FIA provides that the "Bank [is] to be responsible for the licensing and prudential supervision of financial institutions", while section 4(f) of the CBSA stipulates that it is a function of the CBS "to supervise and regulate banking business". The CBS also supervises the Development Bank, the National Provident Fund and domestic insurance companies.  The FIA and PS 1 to 9 provide general guidelines, and in some cases, more detailed minimum prudential standards that banks must meet. These include minimum requirements pertaining to capital, asset quality, credit concentration, connected lending, liquidity, internal control systems and risk exposure.  The FIA provides powers for the CBS to license banks (section 6), to revoke license licenses (section 7), to establish and apply prudential standards to banks' financial condition and



	<p>operations, to require reports (section 9) and to perform on-site examinations (section11).</p> <p>In cases where the CBS judges that a bank is engaging in unsound or unsafe practices it can issue a cease and desist order or require it to take corrective measures (section13). In cases where a bank is insolvent or carrying on its business in a manner detrimental to the interests of its depositors the CBS can take any of several different steps including petitioning the court for the bank to be wound up [section14(e)].</p> <p>The CBS is currently considering how to revise both the FIA and the CBSA to take account of recent developments in the operation of monetary policy and banking supervision. In particular, it is considering amendments to the FIA to facilitate the supervision of banks' operations in securities.</p>
Assessment	Compliant.
Comments	There are a number of topics which the CBS could usefully include in the proposed revision of the FIA. These are detailed under the relevant CPs below. Among these, new legal powers to limit banks' lending to connected parties should be given high priority.
	International Banks
Description	<p>Under the IFA responsibility for the regulation and supervision of international banks is shared between the Minister of Finance and the Inspector of International Banks (the Inspector) appointed by the Minister under the Act. The Inspector in turn is also the chief executive of SIFA. The IFA assigns the legal power to license international banks to the Minister of Finance (section 14), together with exclusive powers [under section 44(1)] to impose additional conditions on licensees, to revoke licenses, to impose corrective measures and to apply to the court for an international bank to be wound up. Under the IFA it is the duty of the Inspector to carry out day to day supervision of international banks' operations and to make recommendations to the Minister on applications for licenses or license renewals (section 5).</p> <p>Section 6 of the IFA empowers the Minister to issue regulatory codes governing international banks' conduct of business, their financial resources, assets and liabilities, accounting and other records, and requirements for their financial statements, audit and supervisory reporting. To date, no such codes have been issued.</p> <p>The legislation provides for effective co-operation between the Minister and SIFA. All applications for licenses have to be submitted to the Inspector (IFA section 13) and both the Minister and the Inspector can require applicants to provide additional information. With regard to ongoing supervision it is part of SIFA's mandate to ensure coordination between the "public sector agencies... concerned in any way with international financial services" [SIFAA, section 4(a)] and "to advise and make recommendations to the Government generally on any matter relating to international financial services" [section 4(j)]. At the practical level co-operation between the Minister and the Inspector is achieved by means of advice provided to the Minister by the SIFA Board of Directors. The Board is chaired by the Governor of the CBS while its other members comprise the Chief Executive Officer of the Ministry of Finance, the Attorney General, SIFA's chief executive and 3 persons appointed from the private sector. The SIFA Board, in turn, is guided by the submissions of the Inspector of International Banks</p> <p>The legislation does not include a specific role for SIFA or the Inspector of International Banks when the Minister is deciding to exercise his powers in relation to problem banks. However, given SIFA's role in the ongoing supervision of international banks and the practice whereby the Minister is advised by the SIFA Board, SIFA does participate in such decisions. SIFA was actively involved in applying the new physical presence requirement in the IFA which led to some international banks losing their licenses.</p> <p>The previous Offshore Banking Act 1987 was replaced by the IBA in 2005. At the same time the Samoa Financial Authority Act 2005 established SIFA as a statutory body to replace the</p>

	previous Samoa Offshore Financial Centre.
Assessment	Compliant.
Comments	None.
<b>Principle 1(2)</b>	Each such agency should possess operational independence and adequate resources.
	Domestic Banks
Description	<p>As mentioned under CP1 above, the CBS is the agency responsible for supervising domestic banks. The decision-making body within the CBS is its Board of Directors. The Board consists of (a) its Chairman (the Governor) and 3 other directors, all of whom are appointed by the Head of State acting on the advice of the Cabinet and (b) the Chief Executive Officer of the Finance Ministry (<i>ex officio</i>). Three members are required for a quorum, one of whom must be the Chairman or the Chief Executive Officer. Members of Parliament and directors or employees of banks are ineligible for appointment to the Board (CBSA section 10).</p> <p>Members of the Board (other than the Chief Executive Officer) are appointed for 3 years and may be re-appointed. The Head of State, acting on the advice of the Cabinet, may remove appointed members for reasons only of disability, neglect of duty, misconduct or bankruptcy, departure from Samoa or extended absence from Board meetings (CBSA section 11).</p> <p>Despite the presence of an <i>ex officio</i> government representative on the CBS Board there is no significant evidence of governmental interference in supervision. Directors of banks may not be appointed to the Board. There is no specific prohibition on owners of banks being appointed as Board members but in view of the ownership structure of Samoan banks this omission is of little material significance. In practice, there is no evidence of interference by the banking industry.</p> <p>CBS employees are currently benefiting from a 45 percent increase in remuneration which has been phased in over 3 years and will be completed this year. This has had the effect of making CBS employment terms competitive with the private sector and ensuring that the CBS has generally had sufficient supervisory personnel. Retention of qualified staff is less of a problem than at the time of the previous assessment. Nevertheless, staffing is still quite tight and a concern for the management who would like to increase the number of supervisors. At present FID has 3 supervisors who work on the four domestic banks and two others who work on the Development Bank and the National Provident Fund. The CBS plans to hire several more mid-level supervisors during the coming months.</p> <p>Feedback received during meetings held with key officials from supervised banks and other relevant institutions, indicated that CBS staff are held in high regard for their professionalism and integrity.</p> <p>For training and technical assistance support, donor agencies/countries such as the IMF, PFTAC, ADB, Australia, etc., have been tapped. The FID is equipped with adequate computers and other equipment for its operations.</p>
Assessment	Compliant.
Comments	In view of the increased examination work being undertaken the CBS should ensure that the FID has adequate staff resources.
	International Banks
Description	<p>As mentioned under CP1 above, responsibility for supervising international banks is shared between the Minister of Finance and the Inspector while day to day supervision of the international banks is performed by SIFA employees.</p> <p>Despite the Minister's extensive powers in relation to international banks there is no</p>

	<p>significant evidence of governmental interference in the ongoing supervision of licensees performed by SIFA.</p> <p>SIFA's supervision of international banks is a relatively small part of its supervision of all international financial activities and is financed out of its General Fund. The registration and licensing fees it collects from all licensees, including international business companies, are paid into the General Fund and the monies are employed to defray the costs of supervision incurred by both SIFA and the Minister.</p> <p>SIFA's current operating budget for 2006-07, including the banking supervision department, is approximately SAT 2,000,000 (about US\$900,000). Staff are paid according to the CBS salary scale (described above), which is currently fully competitive following the 45 percent increase (described in the domestic banks section).</p> <p>Provision is made in the budget for training, which is supplemented by assistance from various donor agencies such as the New Zealand Registry of Companies, PFTAC and the Australian Prudential Regulatory Authority (APRA). In 2006-2007 SAT375,000 (USD\$143,000) was allocated for training and attendance at Seminars and Conferences. SIFA also received technical assistance from the International Monetary Fund (2003, 2005 and 2006) which provided local training on banking supervision (onsite inspections) and successive updates on AML/CFT standards promulgated by the Financial Action Task Force (FATF) on Money Laundering.</p>
Assessment	Compliant.
Comments	None.
<b>Principle 1(3)</b>	A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision.
	Domestic Banks
Description	<p>Section 3 of the FIA provides that the CBS is responsible for the licensing and prudential supervision of banks, while section 14 authorizes it to revoke licenses in cases where banks have become insolvent or are behaving in ways which are detrimental to the interests of their depositors.</p> <p>Section 3 empowers the CBS to issue prudential statements and guidelines in connection with the implementation of the Act, including requirements for the licensing, ownership and management of banks. There is also a backup power in section 29 of the Act which allows the Head of State, acting on the advice of the Cabinet, to issue regulations which may be needed to give full effect to the Act but so far use of this power has not been required.</p> <p>Section 9 of the FIA empowers the CBS to require banks to submit any returns and information it requires for supervisory purposes. Section 11 authorizes the CBS to conduct on-site examinations of banks and places an obligation on a bank under examination to provide all the information CBS examiners may require.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>Section 14 of the IFA provides that the Minister of Finance is responsible for granting licenses to international banks while section 44 provides that the Minister may revoke licenses.</p> <p>Section 6 of the IFA empowers the Minister to issue regulatory codes governing a wide range of international banks' activities:</p>

	<ul style="list-style-type: none"> <li>• the conduct of any business carried on by international banks;</li> <li>• the financial resources of international banks;</li> <li>• the assets, liabilities and other matters to be taken into account in determining an international bank's financial resources for the purposes of the code;</li> <li>• arrangements for the settlement of disputes;</li> <li>• the keeping of accounts and other records, their form, content, inspection and audit;</li> <li>• the form and content of advertisements in respect of any business carried on by international banks;</li> <li>• the giving of notice to the Minister or the Inspector of the occurrence of such events as may be specified in the code;</li> <li>• the form and content of any information required to be produced by international banks to the Minister or the Inspector;</li> <li>• the financial statements and returns which are to be submitted to the Minister or the Inspector; and</li> <li>• the display of notices and the provision of information about the affairs of international banks to the public at its offices and places of business.</li> </ul>
Assessment	Compliant.
Comments	None.
<b>Principle 1(4)</b>	A suitable legal framework for banking supervision is also necessary, including powers to address compliance with laws, as well as safety and soundness concerns.
	Domestic Banks
Description	<p>Section 13 of the FIA provides that “where the CBS is of the opinion”, either as a result of an inspection or otherwise, that a bank is following unsafe and unsound practices or has contravened or failed to comply with the conditions of its license or the provisions of the FIA, the CBS may issue a cease and desist order or require the bank to take appropriate corrective action, which may include enforcement actions against individuals.</p> <p>Section 14 of the FIA provides that “if in the opinion of the Central Bank” a bank is carrying on its business in a manner detrimental to its depositors or is unlikely to meet its obligations as they fall due, it may take any of a range of enforcement measures. These include:</p> <ul style="list-style-type: none"> <li>• directing the bank to take specified measures;</li> <li>• appointing a qualified person advise the bank on the conduct of its business;</li> <li>• revoking the license; and</li> <li>• petitioning the court for the bank to be wound up.</li> </ul>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>Section 5 of the IBA requires the Inspector to conduct both off- and on-site supervision of international banks to ensure that these banks are complying with the Act and are in a sound financial condition. The Inspector reports as necessary to the Minister of Finance on his supervisory findings and advises on any corrective measures which may be required.</p> <p>If in the opinion of the Minister an examination shows that an international bank is carrying on its business in a manner detrimental to the interests of its depositors or has insufficient assets to cover its liabilities or is contravening any provisions of the IBA, the Minister is</p>

	<p>empowered under section 43(1) of the Act to take any of the following steps:</p> <p>(a) require the licensee forthwith to take such measures as the Minister may consider necessary in relation to its business;</p> <p>(b) impose conditions, or further conditions, as the case may be, upon the license and amend or revoke any such condition;</p> <p>(c) require the removal and replacement of any director or officer of the licensee;</p> <p>(d) appoint a person who, in the Minister’s opinion, has had adequate training and experience to advise the licensee in the proper conduct of its business and fix the remuneration to be paid by the licensee to such person;</p> <p>(e) appoint a person to assume control of the licensee’s affairs who shall <i>mutatis mutandis</i> have all the powers of a person appointed as receiver or manager of a business under the Companies Act 1955 and fix the remuneration to be paid by the licensee to such person; or</p> <p>(f) unless the Minister is satisfied that the licensee is taking adequate measures to put its affairs in order, make an order under section 44 canceling the license.</p>
Assessment	Compliant.
Comments	None.
<b>Principle 1(5)</b>	A suitable legal framework for banking supervision is also necessary, including legal protection for supervisors.
	Domestic Banks
Description	<p>Section 25 of the FIA confers immunity on the Board of the CBS, and any officer or person duly appointed or authorized by the CBS, in respect of any liability arising as result of anything done in good faith in the exercise of any power or the performance of any duty under the Act. There is a similar provision under Section 17A of the CBSA.</p> <p>Samoa is a common law country and applies the doctrine of vicarious liability to employers for the actions of their employees.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>Section 56(1) of the IBA provides that “no action shall lie against the Government or any statutory body or authority of Samoa, the Minister, the Inspector or any person acting pursuant to any authority conferred by the Minister or the Inspector, as the case may be, in respect of any act or matter done or omitted to be done in good faith in the exercise or purported exercise of their respective functions conferred by or under this Act or any regulations made there under.”</p> <p>In addition, section 56(2) provides that “the legal costs of defending any action instituted against the Minister, the Inspector or any person acting pursuant to any authority conferred by the Minister or the Inspector shall be borne by the Government of Samoa”.</p>
Assessment	Compliant.
Comments	None.

<b>Principle 1(6)</b>	Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.
	Domestic Banks
Description	<p>The presence of the Chief Executive Officer of the Finance Ministry on the Board of the CBS ensures that any information concerning the soundness of individual banks or the overall stability of the domestic financial system is shared with the government.</p> <p>Section 24 of the FIA permits the CBS, its directors and employees to disclose prudential information in confidence to a supervisory authority in any other country for the purposes of the exercise of functions corresponding to or similar to those conferred on the CBS. The CBS has not signed any formal MoUs for information-sharing with foreign supervisors. In practice, however, the CBS makes extensive use of its legal gateway and finds <i>ad hoc</i> exchanges to be both an efficient and effective method of information-sharing.</p> <p>Section 24 of the FIA (and section 17 of the CBSA) prohibits the CBS, its directors and employees from disclosing confidential information unless disclosure is required by a Court or permitted by law.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>The licensed international banks are not part of Samoa's domestic financial system. They are licensed to conduct banking business with non-residents only. Section 12 of the IBA provides that an international bank may apply to the Minister of Finance to conduct banking business with residents but to date no international bank has sought such permission. International banks' relations with domestic banks are confined to the maintenance of accounts to facilitate their local payments. The principal risk the international banks present to the domestic financial system is reputational, since there could be contagion in the event of an international bank failing or receiving adverse publicity.</p> <p>The duty of the Inspector of International Banks to report to the Minister of Finance ensures that the domestic authorities are informed about any threats to the domestic financial system which may emerge from the international banks. The SIFA Board on which both the CBS and Finance Ministry are represented provides an additional mechanism for the sharing of information.</p> <p>The IBA enables the Inspector to deny any demand for confidential information and places no explicit duty on the Inspector to provide such information even when ordered to do so by a court of law. There is, however, a disclosure gateway in Section 37(3) of the IBA which permits the Inspector of International Banks to disclose information about international banks to foreign or domestic bank supervisory authorities (or authorities responsible for money laundering or countering terrorism) provided the information is subject to adequate confidentiality safeguards and is required for bank (or AML/CFT) purposes.</p> <p>None of the international banks is affiliated with a bank outside Samoa. Consequently, the gateway in section 37(3) has not been used and neither the Minister of Finance nor the Inspector has needed to consider the possibility of signing MoUs with foreign banking supervisors.</p>
Assessment	Compliant.
Comments	None.

<b>Principle 2.</b>	<b>Permissible Activities</b> The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word “bank” in names should be controlled as far as possible.
	Domestic Banks
Description	<p>The word “bank” is clearly defined in law. According to section 2 of the CBSA “bank” means “a financial institution whose operations include the acceptance of deposits subject to withdraw[al] or transfer by check or other means of third party transfer”.</p> <p>The use of the word “bank” is also strictly limited by law. Section 19(2) of the FIA confines use of the word “bank” in a name or description (and any of its derivatives in any language or any word that indicates that a person may be undertaking the business of a bank) to banks licensed under the Act.</p> <p>The permissible activity of licensed banks is “banking business”. This is defined in section 2 of the CBSA as “any customary banking operation and includes the business of accepting deposits of money ... and the use of such funds ...for loans or investments for the account and at the risk of the person doing such business”. Section 12 of the FIA ensures that banks’ activities are confined to “banking business” by prohibiting them from trading in goods (except when realizing security) or investing more than 10 percent of their paid up capital and unimpaired reserves in the equity of commercial, agricultural or industrial undertakings. In PS 6 the CBS also expresses its view that a bank’s ownership interests should normally be in the field of financial intermediation.</p> <p>The legislation makes clear that only licensed banks may accept deposits from the public (since it is an integral part of banking business). In addition, section 4 of the FIA makes it a criminal offence for a person to carry on banking business without a license. Credit unions are, however, exempt from this prohibition.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>The IBA does not contain a definition of the word “bank”. Section 48 of the Act permits the use of the word “bank” or “international bank” in the name or title under which a person carries on a licensed international banking business from Samoa. Use of these words in this way by any other person is a criminal offence (although licensed domestic banks are, of course, permitted to use the word “bank” as described above).</p> <p>Section 2 of the IBA contains a definition of “banking business”. This is very wide-ranging and includes, <i>inter alia</i>, accepting deposits, making loans, trading in financial instruments, precious metals and currencies, issuing guarantees and managing property. There is also provision for international banks to be given permission by the Minister of Finance to carry on activities outside the “customary scope” of banking.</p> <p>Within this legal framework, the particular activities in which an individual international bank is permitted to engage are limited to those which are specified in the terms of its license.</p> <p>The IBA makes provision for 3 classes of license for international banks (described under CP3 below): A, B1 and B2. An A or B1 class license is required for the acceptance of deposits from the public, while a bank with B2 class license may accept deposits only from those persons specified in its license .. At present there are three B1 and three B2 license s in issue but no A license . In the case of a B1 license , the number of currencies in which the bank may transact business is specified in its license.</p>

Assessment	Compliant.
Comments	None.
<b>Principle 3.</b>	<p><b>Licensing Criteria</b></p> <p>The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization’s ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.</p>
	Domestic Banks
Description	<p>Section 6 of the FIA enables the CBS to set criteria for licensing domestic banks. In considering license applications, the CBS is obliged to have regard to the following:</p> <ul style="list-style-type: none"> <li>• the economic advantage to Samoa;</li> <li>• the need for and viability of the proposed bank;</li> <li>• its spread of ownership;</li> <li>• the financial capacity, history and qualifications of the applicant, promoters, substantial shareholders and management;</li> <li>• the character and experience of the same persons;</li> <li>• the proposed accounting and internal control systems;</li> <li>• the adequacy and structure of the capital;</li> <li>• the business activities the bank proposes to undertake; and</li> <li>• in the case of foreign applicants, regulatory requirements in the applicant’s country of incorporation. The CBS also requires written confirmation that the home supervisor has no objection to the proposal to carry on banking business in Samoa and written confirmation from the applicant that it will provide support, as necessary, to its establishment in Samoa.</li> </ul> <p>The CBS has issued detailed guidelines for applying these criteria and established procedures for handling license applications. In practice, there is a two stage procedure.</p> <p>In the first stage the applicant submits an application letter, accompanied by</p> <ul style="list-style-type: none"> <li>• a notarized copy of the promoters’ agreement to establish the bank (detailing the proposed name, location of principal office, directors, amount of authorized share capital and its composition, the amount of capital to be subscribed and when, and names of subscribers);</li> <li>• biographical information on the promoters, substantial shareholders and directors (accompanied by independent character and financial references and long-term financial commitments to the bank);</li> <li>• a business plan indicating the bank’s proposed activities,</li> <li>• financial projections for 3 years ahead; and</li> <li>• a list of the principal officers with details of their qualifications and experience.</li> </ul> <p>The CBS evaluates the information supplied with the application letter and if satisfied with the financial viability of the proposed bank and the qualifications of its promoters, substantial shareholders, directors and principal officers, issues an “Authority to Organize”. It then requires the applicant within a period of 6 months to prepare a suitable office and to submit confirmation that the bank has the minimum required capital; certified copies of its Certificate of Incorporation, Memorandum and Articles of association; affidavits in respect of each</p>



	<p>director and principal officer confirming that he has not been involved with a liquidated or revoked bank, convicted of dishonesty or been made personally bankrupt; the organization chart of the bank; and its draft accounting and internal control manual. When the CBS is satisfied that this second stage has been satisfactorily completed it issues the license .</p> <p>During both stages of the process the CBS reserves the right to investigate the correctness of any information it has received.</p> <p>The minimum initial capital required is SAT 2.5 million in the case of a locally-owned bank and SAT 5.0 million for a foreign-owned bank.</p> <p>Section 7 of the FIA empowers the CBS to revoke a license if it was obtained on the basis of materially false or misleading information.</p> <p>The criteria for issuing license s are consistent with those applied in ongoing supervision and the CBS may revoke a bank’s license if it contravenes the conditions of its license .</p> <p>The CBS has issued a set of Guidelines for establishing a bank in Samoa which draw together and elaborate on the matters set out in the Act relating to licensing.</p>
Assessment	Compliant.
Comments	None
	International Banks
Description	<p>Minimum licensing requirements are contained in the IBA (Sections 8-13).</p> <p>Under section 13 applicants are required to submit to the Minister and Inspector of International Banks information about, <i>inter alia</i>:</p> <ul style="list-style-type: none"> <li>• the nature and character of the company’s business;</li> <li>• the financial standing of the company;</li> <li>• its ultimate beneficial ownership;</li> <li>• evidence that every person who is to be a shareholder, controller or director of the bank is “fit and proper” for his position; and</li> <li>• any other information or documents that the Minister or Inspector may require.</li> </ul> <p>A fit and proper test is applied to all persons named in the application. Section 3 stipulates that in determining if a person is “fit and proper”, regard should be given to that person’s:</p> <ol style="list-style-type: none"> <li>a). honesty, integrity and reputation;</li> <li>b). competence and capability; and</li> <li>c). financial soundness</li> </ol> <p>Officers and directors are required to complete a comprehensive Personal Questionnaire which is then subject to detailed vetting. Due diligence checks are undertaken on directors, officers and beneficial owners of the proposed bank, including criminal record checks and evaluation of their expertise and integrity.</p> <p>Where the proposed owner or parent organisation is a foreign bank, prior consent of the home country supervisor also has to be obtained. However, none of the present international banks is the subsidiary of foreign bank and included in consolidated supervision performed by a foreign bank supervisor.</p> <p>The criteria for issuing licenses are consistent with those applied in ongoing supervision.</p> <p>Section 14 of the IBA empowers the Minister to reject an application if any of the criteria is not fulfilled or if the information provided is inadequate.</p>

	<p>Under section 13, the Minister and the Inspector have unfettered discretion in seeking additional information from license applicants.</p> <p>Sections 9 and 10 of the IBA prescribe a minimum capital requirement of USD\$10 million for A class banks, US\$ 2 million for B1 class banks and US\$ 250,000 for B2 class banks.</p> <p>The Inspector (IBA section 5(4) (e)) is required to examine and make recommendations to the Minister with respect to applications for licenses or license renewals.</p> <p>A license can be revoked if it was obtained on the basis of false information, since providing false information is an offence (section 33 IBA) and in the event of such an occurrence the Minister may revoke a license under section 44(1).</p> <p>The criteria for issuing license s are consistent with those applied in ongoing supervision.</p>
Assessment	Compliant.
Comments	None.
<b>Principle 4.</b>	<b>Ownership</b>
	Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.
	Domestic Banks
Description	<p>Section 18(3) of the FIA defines “transfer of control” as any event that results in a person acquiring ownership or exercising power over twenty percent or more of the voting stock of a domestic bank.</p> <p>Under section 18(1) all such transfers of control require the written approval of the CBS before implementation which has the right to reject transfers.</p> <p>Any bank effecting a transfer of control without CBS approval commits a criminal offence and any purported transfer may be declared null and void.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>Section 17(1) of the IBA defines “transfer of control” as any transfer of shares in an international bank or other event which has the effect of transferring the "effective ownership, management and control” of the bank. The definition includes any event occurring in any holding company of the bank.</p> <p>A transfer of control defined in this way requires the prior written approval of the Minister of Finance who has discretion to refuse his approval.</p> <p>In addition, no shares in, or beneficial interest in the shares of, an international bank may be transferred without the prior written approval of the Inspector (IBA section 18).</p> <p>In the Annual Report filed by every licensee in accordance with IBA section 127 the names of all beneficial owners of an international bank must be confirmed.</p>
Assessment	Compliant
Comments	None.

<b>Principle 5.</b>	<b>Investment Criteria</b> Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.
	Domestic Banks
Description	<p>Section 12 of the FIA places an aggregate limit of 10 percent of paid-up capital and unimpaired reserves on a domestic bank's ownership of the share capital of commercial, agricultural, industrial or other undertakings. The only exceptions are investments in undertakings formed to conduct nominee/trustee functions subject to the prior approval of the CBS, and interests acquired through security enforcement (which the FIA also requires to be disposed of at the earliest suitable opportunity).</p> <p>PS 6 indicates that the CBS expects banks' direct ownership of other institutions, within the 10 percent statutory limit, to be normally in the field of financial intermediation; and that investments in non-financial areas should be confined to those which are of substantial relevance to banking operations.</p> <p>In view of the tight aggregate limit on banks' investments in non-financial enterprises the CBS does not assess individual equity investment proposals (except those related to nominee/trustee/executor functions) or establish criteria for approving them in advance, and does not do so in practice. It receives information about such investments after the event in banks' regular reports.</p>
Assessment	Largely compliant.
Comments	The CBS should consider amending the FIA by introducing a legal limit on the proportion of the equity of an individual non-financial enterprise (perhaps 10 or 15 percent) which a bank may acquire within the existing aggregate limit of 10 percent of the bank's capital. Although such investments are discouraged by PS 6, the present rules allow banks to acquire non-financial subsidiaries through which they could incur additional risks outside the scope of supervision.
	International Banks
Description	<p>The scope of international banks to make investments is limited by restrictions in sections 21 and 23 of the IBA. The Minister has the authority under the IBA section 6 to issue a regulatory code which would specify the criteria to be used in reviewing major acquisitions or investments but has not done so to date.</p> <p>Under section 21 of the IBA, both A and B1 class banks are required to obtain the prior written approval of the Minister or Inspector before they may open a subsidiary bank, branch office or agency outside Samoa.</p> <p>These banks are free to make any investments in other companies provided these do not in aggregate exceed 15 percent of their own paid up capital and reserves. However, investments above this limit require the prior written approval of the Inspector, while section 23(2) of the IBA places an absolute aggregate limit on such permitted investments of 60 percent of own paid up capital and reserves.</p> <p>In addition, A and B1 class banks are prohibited from acquiring an interest in any property, chattels or real estate for any purpose other than the carrying on of their international banking business (IBA section 23(2) (d)).</p>

Assessment	Largely compliant.
Comments	The legal limits on international banks' aggregate permitted investments are in line with international standards (such as those for EU banks). However, as in the case of domestic banks, a limit on the proportion of the equity of an individual non-financial enterprise (e.g., 10 or 15 percent) which an international bank may hold should be considered to prevent the establishment by international banks of non-financial subsidiaries.
<b>Principle 6.</b>	<b>Capital Adequacy</b> Banking supervisors must set minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basel Capital Accord.
	Domestic Banks
Description	<p>The CBS has issued a PS which sets out the required minimum level and method of computation of the capital adequacy ratio (CAR). The definition of capital and the method of calculation of the CAR are consistent with the Basel Capital Accord. Market risk is not, however, included in the CAR computation as the securities market in Samoa is not developed, while FX open positions are small.</p> <p>Required capital ratios are not set in relation to individual banks' risk profiles. Instead, all banks are required to observe a minimum risk weighted capital ratio of 15 percent of risk-weighted exposures. At present all banks have ratios which comfortably exceed the required minimum.</p> <p>Currently none of the domestic banks has any subsidiaries and consequently the CBS has no need to apply the ratio on a consolidated basis. The risk-weighted exposures of those banks which are subsidiaries of foreign banks are included in the consolidated capital ratios of their parents.</p> <p>The statutory required minimum capital is SAT 2.5 million for locally owned banks and SAT 5.0 million for foreign owned banks.</p>
Assessment	Largely Compliant.
Comments	The CBS should consider introducing some straightforward specific capital charges for market price risk and FX risk. Holdings of marketable government or central bank securities could be weighted at 10 or 20 percent instead of zero to reflect price fluctuation risk. Aggregate FX open positions which exceed a specified threshold (for example, 2 percent of total assets) could be added to risk-weighted assets for the calculation of the CAR.
	International Banks
Description	<p>International banks are required to maintain at all times the minimum capital requirements (described under CP3 above) they had to meet in order to be licensed.</p> <p>Section 6 of the IBA empowers the Minister to issue regulatory codes concerning, <i>inter alia</i>, international banks' financial resources, and the assets, liabilities and other matters to be taken into account in determining their financial resources. To date, however, no code has been issued imposing minimum capital adequacy requirements on international banks.</p>
Assessment	Noncompliant.
Comments	Currently, all of the international banks are restricted B class banks that do not accept deposits from the public. They are used by their owners primarily for tax planning purposes and to carry on in house treasury functions. Since these institutions, despite their status as licensed banks, do not function as conventional banks and incur typical banking risks, it is questionable

	to what extent any added value would be obtained, or public interest served, by treating them as conventional banks (for example, by imposing capital ratios). The strongest argument for such treatment would be the need to mitigate any reputational risk to Samoa's domestic financial system.
<b>Principle 7.</b>	<b>Credit Policies</b> An essential part of any supervisory system is the independent evaluation of a bank's policies, practices, and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.
	Domestic Banks
Description	<p>As part of its licensing requirements, the CBS requires banks to establish a prudent credit-granting and investment system. However, the CBS has not issued a prudential statement setting out the standards which banks should observe in their own credit policies (PS4 deals with the particular question of credit concentrations but not with credit risk in general). There are, for example, no specific requirements for periodic review by bank management and boards of directors of credit policies, practices, and procedures and no requirement for the banks to disseminate knowledge of their credit procedures to the staff involved.</p> <p>In the absence of any PS on credit policies and practices the CBS lacks a yardstick against which it can measure the adequacy of banks' existing policies and the faithfulness with which these are applied in practice (other than in the limited area of credit concentrations).</p> <p>Against this background the CBS has during recent years expanded its examinations of banks concentrating on credit risk practices and AML procedures. Examinations have successfully identified several instances where prohibited conflicts of interest had occurred.</p> <p>It is possible that external auditors have performed some work to evaluate banks' credit policies and practices as part of their statutory audits, but the CBS has not obtained specific assurances from the auditors on this aspect of their work.</p> <p>Preliminary discussions have taken place between the banks and the authorities on the possibility of establishing a credit bureau.</p>
Assessment	Materially noncompliant.
Comments	The CBS should develop a PS which sets minimum standards for banks' own credit policies. It should then review the adequacy of banks' policies in relation to these standards and verify during the examination process that banks are adhering to their own approved policies in practice. <i>Inter alia</i> , banks' credit policies should contain internal limits for exposures to single counter-parties, groups of closely related borrowers, economic sectors and geographical areas; also, procedures for approving exposures to persons connected with the bank and internal limits for such exposures.
	International Banks
Description	The Minister has not issued any regulatory code which sets standards for international banks' credit policies. Also, although the Inspector has carried out some onsite inspections, these have not addressed banks' policies and procedures with regard to the granting of loans or the making of investments.
Assessment	Noncompliant.
Comments	The Minister and Inspector should develop a regulatory code which sets standards for international banks' credit policies. It would be efficient if the CBS and SIFA were to work together on developing a single body of such standards which each authority would issue separately to its own constituency of licensed banks.

<b>Principle 8.</b>	<b>Loan Evaluation and Loan-Loss Provisioning</b> Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices, and procedures for evaluating the quality of assets and the adequacy of loan-loss provisions and reserves.										
	Domestic Banks										
Description	<p>The CBS has issued guidelines (in PS 7) for banks' asset quality and loan loss provisions. The CBS recognizes that the foreign owned banks will follow the credit review procedures of their parents and they are accordingly exempted from following the guidelines in every detail. The guidelines require banks to have a system for regularly reviewing their loans and identifying loan losses. Loans are defined to include all direct and indirect extensions of credit including accounts receivable, property acquired in settlement of loans and equity investments. Banks are also required to have an asset classification system and the guidelines strongly imply that the two locally owned banks must follow the classification and provisioning scheme detailed in the guidelines. This can be outlined as follows:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Classification</th> <th style="text-align: left;">Required Provision (percentage of value)</th> </tr> </thead> <tbody> <tr> <td>Standard</td> <td>0</td> </tr> <tr> <td>Substandard</td> <td>20</td> </tr> <tr> <td>Doubtful</td> <td>50</td> </tr> <tr> <td>Loss</td> <td>100</td> </tr> </tbody> </table> <p>The definitions used in the classification are in line with generally accepted international practice. Other elements in the guidelines – dealing with the recognition of collateral, interest suspension, and the treatment of rescheduled loans – are also in line with acceptable international classification practices.</p> <p>The CBS analyzes past due loans and provisioning data off-site. The development of on-site examinations concentrating on credit review has recently strengthened the ability of the CBS to monitor the adequacy of banks' own loan reviews and provisioning for loan losses.</p>	Classification	Required Provision (percentage of value)	Standard	0	Substandard	20	Doubtful	50	Loss	100
Classification	Required Provision (percentage of value)										
Standard	0										
Substandard	20										
Doubtful	50										
Loss	100										
Assessment	Largely compliant.										
Comments	The CBS should require banks to have in place mechanisms for regularly valuing collateral and assessing the strength of guarantees.										
	International Banks										
Description	<p>No rules have been issued requiring international banks to review periodically their outstanding loans, classify loans and make necessary provisions. Under section 28 of the IBA (section 28), A and B1 class banks are required to file quarterly returns that include information in respect of their loans, advances and assets. B2 class banks are required to file such returns every six months.</p> <p>The Inspector may require under section 36 (4) of the IBA as part of an audit, that the auditor prepares a report on the asset quality, adequacy of provisions for losses and the adequacy of the accounting and control systems.</p>										
Assessment	Noncompliant.										

Comments	The Minister and Inspector should issue a regulatory code requiring international banks to have internal systems for regularly reviewing their loans and other exposures, classifying these and making any necessary provisions for losses on a timely basis.
<b>Principle 9.</b>	<b>Large Exposure Limits</b> Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio, and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.
	Domestic Banks
Description	<p>Section 12 of the FIA limits to 25 percent of capital any exposure to a single person or group of persons under the control of one and the same person. PS 4 describes in detail the standards which banks are to follow in order to comply with the limit.</p> <p>The PS does not supply an extensive list of examples of “closely related groups” but instead provides a general test which banks have to apply in order to determine if a combined exposure represents a single risk: borrowers are treated as closely related if they are interconnected in such a way that, if one borrower experiences financial difficulties, the other borrower (or borrowers) is also likely to encounter payment difficulties. The PS goes on to mention as examples of single risks companies with common ownership and borrowers who share the same collateral.</p> <p>The PS also defines credit exposure widely to include not only loans and advances but also overdrafts, all direct and indirect obligations, holdings of commercial paper, equity investments and all off-balance sheet commitments which serve as credit substitutes such as general guarantees of indebtedness and standby letters of credit which serve as guarantees.</p> <p>While the CBS is now undertaking examinations it is not clear to what extent examiners are focusing on the nature and effectiveness of banks’ own management systems for controlling such risks (and complying with the standards) rather than the straightforward identification of breaches.</p> <p>Banks provide a quarterly schedule of their ten largest borrowers. The CBS also obtains sectoral information on loans on a monthly basis. There is no return providing a geographical breakdown of loans but this seems unnecessary in view of the size of the country (and the controls on overseas lending).</p> <p>Feedback received from meetings held with banks and external auditors indicated the need to clarify that the Schedule of Top Ten Largest Borrowers should be based on credit facilities extended to a group of closely related borrowers.</p>
Assessment	Largely compliant.
Comments	<p>During examinations the CBS should strengthen its assessment of the adequacy of banks’ own internal systems for identifying groups of related borrowers and controlling credit concentrations.</p> <p>The present quarterly return of each bank’s 10 largest borrowers may not capture all single exposures which exceed 25 percent of capital and does not provide sufficient information for fully effective monitoring of concentration risk. It is recommended that banks should report all single exposures (as currently defined) which exceed 10 percent of capital (i.e. including large exposures which fall below the 25 percent ceiling).</p>
	International Banks
Description	There are no laws or rules governing international banks’ large exposures. The quarterly and half yearly financial statements filed with the Inspector by banks contain a schedule of their twenty (20) single largest exposures.

Assessment	Noncompliant.
Comments	The Minister and Inspector should issue a regulatory code which requires international bank to address concentration risk. This should include, <i>inter alia</i> , a definition of closely related groups (which have to be treated as single borrowers), a requirement to report all individual exposures which exceed 10 percent of capital and a prohibition on incurring single exposures which exceed 25 percent of capital without obtaining prior permission from the Inspector.
<b>Principle 10.</b>	<b>Connected Lending</b> In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.
	Domestic Banks
Description	<p>Section 12(c) of the FIA provides that credit facilities to a director of a bank must be substantially on the same terms, interest rates and security, prevailing at the time for comparable transactions by the bank with members of the general public. The principle is extended to other connected parties through PS 6. PS 6 provides a comprehensive definition of connected exposures and connected parties, as well as the CBS's expectations for the bank's consideration in any connected lending activities. However, there is no specific provision in the law or in the PS which gives the CBS discretion to make judgments about the existence of connections between the bank and other parties.</p> <p>PS 6 requires that any proposed connected exposure of banks should be approved by a majority of the board of directors, excluding any interested director. PS 6 specifies that directors or officers benefiting from any connected exposure be excluded from taking part in the evaluation, deliberations, or decisions relating to those exposures.</p> <p>The limit for connected lending exposures is the same as for unconnected lending; i.e., 25 percent of capital. (See CP 9.) However, neither the law nor PS 6 allow the CBS to require, on a general or case-by-case basis, the deduction of exposures to connected parties from eligible capital for purposes of the capital adequacy ratio.</p> <p>PS 6 is not specific on the information and monitoring systems that banks should have in place to independently identify, monitor, and administer exposures to individual connected parties, as well as the aggregate of such exposures.</p> <p>There is no report submitted to the CBS that would enable monitoring of connected lending, nor does the CBS obtain information on aggregate exposures to connected parties. This information is disclosed in the banks' audited annual reports. The CBS is revising its periodic information collection requirements and is expected to include collection of this information in that project.</p>
Assessment	Materially noncompliant.
Comments	<p>Although the current definition of connected parties in PS 6 is broad, the CBS should also be given specific discretionary power to make judgments on the existence of connections between the bank and other parties, in special circumstances.</p> <p>The CBS has not validated compliance with the law or PS 6, either through periodic collection of individual or aggregate information on connected lending or through on-site inspection.</p> <p>The CBS does not require information systems in the banks to independently identify, monitor, and administer such exposures.</p>
	International Banks
Description	Section 23(2)(c) of the IBA prohibits unsecured advances, unsecured credit facilities, unsecured guarantees, or any other unsecured liabilities in an aggregate amount that is in



	<p>excess of US\$5,000 or one percent of the paid up capital and unimpaired reserves of the licensee, whichever is greater, to connected parties.</p> <p>A comprehensive definition of connected parties is contained in Section 23 (2) (c) (i) to (iii), which would include, <i>inter alia</i>, affiliated companies and partnerships, shareholders, beneficial owners, directors, senior management, as well as close family members.</p> <p>The Inspector collects information on connected party loans and advances quarterly.</p>
Assessment	Materially noncompliant.
Comments	<p>Although the current nominal aggregate limitation on unsecured extensions of credit to connected parties permits only a minimal exposure by the bank, the Inspector should still consider addressing the following issues:</p> <ul style="list-style-type: none"> <li>• there are no specific prohibitions on granting extensions of credit to connected parties on more favorable terms than those for unconnected parties;</li> <li>• there is no specific requirement that transactions with connected parties be approved by the bank's board of directors, or that persons benefiting from such transactions be excluded from the assessment and decision-making on such transactions; and,</li> <li>• the Inspector does not require information systems in the banks to independently identify monitor, and administer such exposures.</li> </ul>
<b>Principle 11.</b>	<p><b>Country Risk</b></p> <p>Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring, and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.</p>
	Domestic Banks
Description	<p>As addressed in PS 4, the CBS expects every bank to be aware of the various types of risk to which it is exposed. Banks are also expected to have adequate and effective internal systems in place which clearly establish policies and procedures on the measurement, control, approval and monitoring of every type of risk exposure. Specific minimum requirements pertaining to risk management have not been issued, except for capital and asset quality. Consequently, PS 4 does not specifically address country or transfer risk nor does it set out requirements covering the specific analysis, limitations, and controls related to such risks. The banks' are expected to establish and implement their specific policies, controls, and limitations, based on the particulars of their activities.</p> <p>Previous on-site examinations that targeted credit risk have included a review of the banks' internal control systems for the overall management of credit risk in their operations, including country and transfer risk. Additionally, the CBS, pursuant to its exchange control regulations, requires that it give prior approval of any foreign loan or investment by a bank. In this regard, banks are required to provide detailed information on the borrower and all of the terms and conditions of such loans.</p> <p>The CBS collects information monthly on aggregate foreign asset exposures and liabilities, but information on exposures and liabilities to individual countries is not collected.</p> <p>While the CBS expects banks to make appropriate provisions pursuant to the general requirements of PS 7, there are no specific requirements related to country risk-related provisioning.</p>
Assessment	Largely compliant.

Comments	<p>The CBS should consider:</p> <ul style="list-style-type: none"> <li>• amending PS 4 and PS 7 to specifically address the unique characteristics of country and transfer risk; and,</li> <li>• periodically collecting information on specific country and transfer risk exposures.</li> </ul>
	International Banks
Description	<p>The Inspector has not yet issued guidance to international banks on the establishment of appropriate risk management, internal control, and information systems.</p> <p>The Inspector has not yet conducted on-site examinations of risk management, internal control, or information systems in any international banks.</p> <p>The Inspector does not, at this point, monitor or collect information on country and transfer risk in international banks.</p> <p>The Inspector has not issued minimum provisioning requirements pertaining to country and transfer risk management in international banks.</p>
Assessment	Noncompliant.
Comments	After analysis of the specific risk exposure issues in all of the existing international banks, the Inspector should issue appropriate requirements for risk management, internal control, and information systems, including necessary provisioning requirements, and monitor and control such exposures and the implementation of those requirements through periodic collection and analysis of pertinent information and through on-site examinations.
<b>Principle 12.</b>	<b>Market Risks</b>
	Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor, and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposure, if warranted.
	Domestic Banks
Description	<p>There are no specific requirements placed on banks in relation to market risk but the fifteen percent minimum capital adequacy requirement is intended to cover the full range of risks faced by banks in Samoa. There is no domestic securities market in Samoa and while there is some trading in foreign exchange by the banks, net open positions are small. Consequently, overall market risk in the banks is minimal.</p> <p>PS 9 outlines the approach and general principles applied by the CBS in measuring and monitoring foreign currency risk exposures of banks. PS 9 also addresses the CBS's requirements for setting and controlling internal bank intra-day and end-of-day exposure limitations. Internal exposure limitations are established by the banks and agreed on with the CBS.</p> <p>Each bank is required to submit a weekly Foreign Currency Position Report which is used by the CBS for monitoring purposes. Banks must report to CBS when they exceed their agreed internal limitations for three consecutive trading days.</p> <p>Under the FIA, the CBS has the power to impose specific capital charge and/or limits on the various risk exposures.</p>
Assessment	Not applicable.
Comments	None.
	International Banks
Description	The Inspector does not monitor the international banks on the control of market risks and has not imposed specific risk management, internal control, or information systems, limitations, or

	<p>a specific capital charge related to market risk.</p> <p>The materiality of the impact of market risk in international banks is impossible to quantify given the lack of available information on the nature of the international banks' activities.</p>
Assessment	Noncompliant.
Comments	After further analysis of the specific risk exposure issues in all of the existing international banks, the Inspector should, to the degree necessary, issue appropriate guidance for risk management, internal control, and information systems and monitor and control of such exposures and monitor the implementation of those requirements through periodic collection and analysis of pertinent information and through on-site examinations.
<b>Principle 13.</b>	<b>Other Risks</b>
	Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor, and control all other material risks and, where appropriate, to hold capital against these risks.
	Domestic Banks
Description	<p>The CBS requires that banks put in place a general requirement for comprehensive risk management processes appropriately designed to identify, measure, monitor, and control risks in each individual institution. PS 5 addresses the CBS's more specific requirements and expectations for banks' own management of their liquidity risk but does not impose any general liquid assets ratio or other minimum liquidity requirement on banks. PS 9 addresses the requirements and expectations for the management of foreign exchange risk. There are no specific requirements and expectations on the risk management systems which the banks need to have in place for operational risk or interest rate risk.</p> <p>Except for credit risk, the CBS has not yet undertaken a comprehensive on-site review of the specific risk management processes in the banks.</p> <p>The CBS has broad powers under the FIA that would allow it to impose/vary requirements on capital to consider risks in addition to credit and market risk.</p> <p>There is off-site monitoring of compliance with legal and prudential requirements. The CBS collects a weekly liquidity report and monthly reports on interest rate risks in assets and liabilities. To date, there has been no on-site verification of the quality of such reporting. Bank liquidity is tightly measured and monitored by the CBS. Monthly adjustments to banks' obligatory reserves, as necessary, are mandated by the CBS to address liquidity issues in all of the banks.</p> <p>The CBS does not require banks to include in their publicly available accounts a statement on their risk management policies and procedures. Published audit reports, however, verify compliance with international accounting and auditing standards.</p>
Assessment	Materially noncompliant.
Comments	<p>The CBS should issue specific guidance to the banks on their requirements and expectations for the management and control of operational risk and interest rate risk.</p> <p>It should be noted that the November 2006 revision and update of the BCPs separated the risks currently addressed in this CP into three separate CPs, allowing operational risk, interest rate risk, and liquidity risk to be addressed independently.</p>

	International Banks
Description	<p>The Inspector does not monitor the international banks on the control of operational, interest-rate, or liquidity risks and has not imposed specific risk management, internal control, or information systems, limitations, or a specific capital charge related to such risks. Information on liquidity is not collected.</p> <p>The Inspector has not undertaken any comprehensive review of the international banks' risk management processes, either on-site or off-site, nor has it issued guidance to the banks on its requirements and expectations for the management and control of liquidity risk, operational risk, or interest-rate risk.</p> <p>The materiality of the impact of other material risks in international banks is impossible to quantify given the lack of available information on the nature of the international banks' activities.</p>
Assessment	Noncompliant.
Comments	<p>After further analysis of the specific risk exposure issues in all of the existing international banks, the Inspector should issue appropriate guidance for risk management, internal control, and information systems and monitor and control of such exposures and monitor the implementation of those requirements through periodic collection and analysis of pertinent information and through on-site examinations.</p> <p>It should be noted that the November 2006 revision and update of the BCPs separated the risks currently addressed in this CP into three separate CPs, allowing operational risk, interest rate risk, and liquidity risk to be addressed independently.</p>
<b>Principle 14.</b>	<p><b>Internal Control and Audit</b></p> <p>Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls, as well as applicable laws and regulations.</p>
	Domestic Banks
Description	<p>The Companies Act provides that the business and affairs of a company must be managed by, or under the direction or supervision of, the directors. PS 2 states that a director or principal officer of a bank must be a fit and proper person and describes in general terms the requirements for a fit and proper person. During the licensing stage, there is an assessment of the quality of proposed bank directors and management by the CBS. In practice, subsequent to the commencement of business, the CBS requires that all proposed changes in the directors or senior management of the banks must be reported, in order that a fit and proper determination can be made. However, there is no specific authority in the FIA that authorizes the CBS to require a bank to change the composition of its board of directors or its management. Specific responsibilities of the board of directors with respect to corporate governance principles have not been defined by the CBS. The government has, however, established an Institute of Directors, to assist in the development of expertise needed to function as a company director. PS 8 sets out the CBS's requirements and expectations for banks' accounting and internal control systems. These systems must provide management and the board of directors, as well as auditors and supervisory authorities, with the assurances and information that they need to properly manage the bank and to comply with statutory, regulatory, and prudential requirements. Such systems are required to be commensurate with the nature and particular</p>

	<p>needs of the individual banks and cover all aspects of their business, both on- and off-balance sheet.</p> <p>Except for credit risk management and anti-money laundering requirements, the CBS has not yet undertaken a comprehensive review, on-site or off-site, of the internal control, accounting, and auditing systems of banks, although the review of the banks' periodic reporting returns provides for some determination of their accuracy. Both locally-owned banks employ on-site internal audit staff. Both foreign-owned banks receive periodic visits from regional corporate internal auditors, are otherwise monitored and controlled by their parent bank, and are supervised on a consolidated basis by supervisory authorities from a major regional jurisdiction. All banks receive annual independent external audits.</p> <p>There are no supervisory requirements relating to Audit Committees and the size/nature of operations in Samoa may not warrant such a committee. There is no requirement that experienced non-executive directors be included in the board; however, the number of qualified, experienced directors in Samoa is currently limited.</p>
Assessment	Largely compliant.
Comments	<p>As a matter of practice, the CBS should obtain and review copies of internal audit reports, at least during their on-site examinations.</p> <p>The planned updating of the FIA should include:</p> <ul style="list-style-type: none"> <li>• specific authority for the CBS to require necessary changes to a bank's board of directors or management, in appropriate circumstances; and,</li> <li>• specific authority for the CBS to require the banks to obtain approval of all proposed changes in their board of directors or senior management.</li> </ul> <p>The CBS should consider issuing a PS that provides guidance on the corporate governance responsibilities of a bank's board of directors and its senior management.</p>
	International Banks
Description	<p>Under the IBA section 19, every licensee shall have at no time less than two directors, both of whom must be natural persons and one of whom must be a Samoan resident, who effectively direct the business, ensuring that the "four eyes" principle is applied in the banks' decision-making. Section 19 also requires the written approval of the Inspector for the appointment of the bank's board members or chief executive officer. Section 3 of the IBA defines "fit and proper" for the purpose of the approval of managers and controllers of a bank; this definition includes: honesty, integrity, and reputation; competence and capability; and, financial soundness. Section 44 of the IBA permits the Minister, in certain specified circumstances, to require the removal and replacement of any director or officer of a licensee.</p> <p>In the supervision of the international banks, the Inspector currently relies heavily on each bank's external auditors and, most particularly, on the IBA, section 36, in which the auditor's responsibilities for setting the scope of, conducting, and reporting on the findings of the audit are specified. The external auditor's duties include, <i>inter alia</i>, the expression of an opinion on solvency, irregularities, criminal offences, and losses which substantially reduce capital funds.</p> <p>With the establishment of a physical presence in Samoa for all international banks now completed, the Inspector is in a better position to determine that the internal controls and audit are adequate for the nature and scope of each bank's business. However, to date on-site examinations have included only a review of the banks' policies, systems, and controls related to anti-money laundering requirements and the completion of the Inspector's requirements for the establishment of a physical presence.</p> <p>The Inspector has not yet undertaken any comprehensive review, either off-site or on-site, of the internal control, accounting, and auditing systems of offshore banks, nor has it promoted</p>

	<p>the concept of corporate governance for directors and managers.</p> <p>There is no requirement for experienced non-executive directors; however, the availability of qualified, experienced non-executive directors in Samoa is currently limited. There is no requirement for an audit committee; however, the size/nature of these operations may not warrant such committees. The size/nature of these operations generally precludes the need for an internal audit function.</p>
Assessment	Materially noncompliant.
Comments	<p>The Inspector should provide guidance to the banks on its requirements for risk management and internal controls and accounting systems.</p> <p>The Inspector should issue guidance for the corporate governance responsibilities of bank directors and management.</p> <p>The Inspector should fully implement its on-site examination program, including comprehensive coverage of risk management, internal control, and audit systems.</p>
<b>Principle 15.</b>	<p><b>Money Laundering</b></p> <p>Banking supervisors must determine that banks have adequate policies, practices, and procedures in place, including strict “know-your-customer” rules that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.</p>
	Domestic Banks
Description	<p>The Money Laundering Prevention Act 2000 (MLPA2000) addressed money laundering and related issues for banks and other specified financial institutions. In accordance with the MLPA2000, the functions of the MLA were carried out by the Governor of the CBS. The FID provided support for MLA functions and issued regulations/guidelines, including pertinent reporting formats.</p> <p>The Money Laundering Prevention Act 2007 (MLPA2007), which repealed and replaced the MLPA2000, has been recently enacted by the Parliament and implementation is beginning. The MLPA2007 designates the supervisory functions of the Money Laundering Authority (MLA) to the Governor of the CBS; those functions have been delegated to the Deputy Governor of the CBS and the Manager, FID. A Financial Intelligence Unit (FIU) is to be formed by the MLA, which, <i>inter alia</i>, will receive, analyze, and assess Suspicious Transactions Reports (STR) filed by financial institutions, as defined in the Act, supervisory authorities, and auditors. The obligations on financial institutions to keep records, verify identify, and monitor transactions are now expressly provided for in the Act, rather than through regulations.</p> <p>The MLPA2007 addresses the “know-your- customer” and other related issues not only for banks but also for other financial institutions that are specified in the Act. The MLPA2007 is intended to address all of the requirements and standards as promulgated by the Financial Action Task Force (FATF) 40 plus 9 recommendations. In addition, it is intended to address most of the key recommendations of the Mutual Evaluation Report of the Asia/Pacific Group on Money Laundering/Offshore Group of Banking Supervisors conducted in February 2006.</p> <p>Banks are already following the regulations/guidelines issued for the MLPA2000, in accordance with their own policies and procedures and are submitting required reports to the FID. These regulations/guidelines provided for appropriate policies, practices, and procedures regarding customer identification and customer transactions, recordkeeping on customer identification and customer transactions, recognition and reporting of suspicious transactions, the appointment of a senior officer responsible for anti-money laundering matters, and other</p>

	<p>related issues.</p> <p>New regulations and guidelines will be issued by the MLA to give effect to the MLPA2007. These regulations and guidelines are expected to be completed by May/June 2007, after consultation with the affected financial institutions and approval by the Cabinet and the Parliament.</p> <p>MPLA2007, in section 29, provides for protection from civil, criminal, administrative, or disciplinary proceedings for those responsible for making required reports, when such actions are made in good faith in the course of their responsibilities or upon direction of the FIU.</p> <p>Pursuant to sections 8 and 9 of the MLPA2007, the sharing of information with domestic and foreign authorities, including supervisory authorities, is to be done directly by FIU, either pursuant to information sharing agreements or other direct initiatives. The FIU is formed by the MLA which is managed by the CBS.</p> <p>The CBS has conducted on-site examinations of the anti-money laundering systems and procedures of all of the banks, to determine their effectiveness in accordance with the MLPA2000.</p> <p>The Governor of the CBS, or his designee, is the chairperson of the Money Laundering Prevention Task Force, pursuant to section 5 of the MLPA2007, which advises the MLA, makes recommendations related to anti-money laundering matters, and ensures close liaison, co-operation, and co-ordination between the various government departments and corporations, the MLA, and the FIU. The MLA will be developing operating procedures for this task force.</p>
Assessment	Largely compliant.
Comments	The MLA should expeditiously complete the required new regulations and guidelines in order to fully implement the MLPA2007.
	International Banks
Description	<p>The Money Laundering Prevention Act 2000 (MLPA2000) addressed money laundering and related issues for banks and other specified financial institutions. Pursuant to the MLPA2000, international banks (formerly known as “offshore banks”) were defined as “financial institutions” and were subject to the due diligence, recordkeeping, reporting and other requirements of the Act. In accordance with the MLPA2000, the functions of the MLA were carried out by the Governor of the CBS. The FID provided support for MLA functions and issued regulations/guidelines, including pertinent reporting formats.</p> <p>The Money Laundering Prevention Act 2007 (MLPA2007), which repealed and replaced the MLPA2000, has been recently enacted by the Parliament and implementation is beginning. The MLPA2007 designates the supervisory functions of the Money Laundering Authority (MLA) to the Governor of the CBS; those functions have been delegated to the Deputy Governor of the CBS and the Manager, FID. A Financial Intelligence Unit (FIU) is to be formed by the MLA, which, <i>inter alia</i>, will receive, analyze, and assess Suspicious Transactions Reports (STR) filed by financial institutions, as defined in the Act, supervisory authorities, and auditors. The Inspector, as a supervisory authority, is required to file such reports with the FIU. The obligations on financial institutions to keep records, verify, identify, and monitor transactions are now expressly provided for in the Act, rather than through regulations. International banks are defined as ‘financial institutions’ in the Act and, consequently, are subject to the reporting and due diligence requirements of the Act.</p> <p>Pursuant to the IBA, section 5, the Inspector is to maintain a general review of banking practice in Samoa, including the maintenance of adequate policies and procedures for “know your customer” and anti-money laundering. Additionally, the Inspector, as the Chief Executive Officer of SIFA, is a member of the Money Laundering Prevention Task Force,</p>

	<p>pursuant to section 5 of the MLPA2007, which advises the MLA, makes recommendations related to anti-money laundering matters, and ensures close liaison, cooperation, and coordination between the various government departments and corporations, the MLA, and the FIU.</p> <p>The MLPA2007 addresses the “know-your- customer” and other related issues not only for banks but also for other financial institutions that are specified in the Act. The MLPA2007 is intended to address all of the requirements and standards as promulgated by the Financial Action Task Force (FATF) 40 plus 9 recommendations. In addition, it is intended to address most of the key recommendations of the Mutual Evaluation Report of the Asia/Pacific Group on Money Laundering/Offshore Group of Banking Supervisors conducted in February 2006.</p> <p>Banks are already following the regulations/guidelines issued for the MLPA2000, in accordance with their own policies and procedures and are submitting required reports to FID.</p> <p>These regulations/guidelines provided for appropriate policies, practices, and procedures regarding customer identification and customer transactions, record-keeping on customer identification and customer transactions, recognition and reporting of suspicious transactions, the appointment of a senior officer responsible for anti-money laundering matters, and other related issues.</p> <p>New regulations and guidelines will be issued by the MLA to give effect to the MLPA2007. These regulations and guidelines are expected to be completed by May/June 2007, after consultation with the affected financial institutions and approval by the Cabinet and the Parliament.</p> <p>MPLA2007, in section 29, provides for protection from civil, criminal, administrative, or disciplinary proceedings for those responsible for making required reports, when such actions are made in good faith in the course of their responsibilities or upon direction of the FIU.</p> <p>Pursuant to sections 8 and 9 of the MLPA2007, the sharing of information with domestic and foreign authorities, including supervisory authorities, is to be done directly by FIU, either pursuant to information sharing agreements or other direct initiatives. The FIU is formed by the MLA which is managed by the CBS.</p> <p>The Inspector has conducted on-site examinations of the anti-money laundering systems and procedures of the international banks, to determine their effectiveness in accordance with the MLPA2000.</p>
Assessment	Largely compliant.
Comments	The MLA should expeditiously complete the required new regulations and guidelines in order to fully implement the MLPA2007.
<b>Principle 16.</b>	<p><b>On-Site and Off-Site Supervision</b></p> <p>An effective banking supervisory system should consist of some form of both on-site and off-site supervision.</p>
	Domestic Banks
Description	<p>The CBS has initiated an on-site examination program, although, to date, on-site examinations of only the banks’ credit risk management and anti-money laundering systems and policies have been conducted. All banks have been subjected to these examinations. The most recent on-site visits were conducted in late 2006. A two-year cycle of targeted on-site examinations is anticipated. Capacity constraints and staff training issues have limited the CBS’ ability to fully implement its on-site examinations program.</p> <p>The CBS had previously conducted only one on-site examination, in 2000 in conjunction with external auditors. The main objective of that visit had been to confirm the accuracy of information submitted to the CBS, but there were ancillary benefits in terms of improving</p>



	<p>understanding of corporate governance and risk management systems. On a number of occasions in the past, the CBS has also used external auditors to independently confirm the reliability of statistical information submitted.</p> <p>The CBS has adopted an on-site inspections manual which provides a detailed, comprehensive basis for the conduct of the examinations. The manual provides specific guidance concerning:</p> <ul style="list-style-type: none"> <li>• the determination of the scope of general and special inspections;</li> <li>• the determination of the procedures to be used in the inspection of specific areas of the bank;</li> <li>• the evaluation of written policies, practices, and procedures, the degree of compliance with them, and the adequacy of the system of internal controls;</li> <li>• the evaluation of the quality of the work performed by internal and external auditors;</li> <li>• the evaluation of the performance of management and directors; and,</li> <li>• the formulation of objective criteria for evaluating the condition and quality of the bank and its management.</li> </ul> <p>The process outlined in the manual takes a risk-based approach to addressing various bank activities; risks covered include: credit, investment, liquidity, operating, interest rate, foreign exchange, off-balance sheet, and solvency. Also, other covered topics include: information systems, accounting policies, internal controls, and internal and external audit activities. (See CP 19.)</p> <p>The CBS obtains and reviews a range of information on the financial condition, soundness, and strength of the banks. Regular returns are provided to the CBS by the banks on a weekly, monthly, quarterly, semi-annual, and annual basis. These reports are used for the ongoing financial analysis and monitoring of banks financial performance and condition. Analysis focuses on each bank's performance in accordance with key prudential standards and requirements, as set by the CBS in keeping with the requirements of the FIA. Areas of interest also include, <i>inter alia</i>, compliance checks in relation to capital adequacy, required reserves, lending limitations, etc. Any deficiencies are taken up directly with the bank concerned. Overall trends and developments in the banking sector are monitored and reports are prepared for senior CBS management. (See CP 18.)</p>
Assessment	Largely compliant.
Comments	The CBS should continue to diligently pursue the full implementation of its on-site examination program. This implementation program should include any necessary staff augmentation and training.
	International Banks
Description	<p>The IBA, section 5 (4)(b), gives the Inspector the authority to conduct on-site examinations and off-site supervision. In carrying out these examinations, the Inspector is authorized complete access to all accounts, accounting records, audit reports, and any other materials and documents of the bank. During 2005 and 2006, the Inspector initiated an on-site examination program. However, to date, examinations have addressed only anti-money laundering policies and procedures, and compliance with the requirements of the IBA, section 11, and Guidance Practice Note No. 2 issued by the Inspector that the banks maintain a physical presence in Samoa. With the establishment of the requirement for physical presence of all international banks in Samoa, on-site examinations can now be conducted to ascertain the condition of the banks and their compliance with the Act.</p> <p>The Inspector has adopted an on-site examination manual which addresses many of the unique characteristics of the international banks. The primary objective of the examination process is to confirm the banks' compliance with applicable legislation and regulations, as well as other guidance that is issued. Topics addressed in the procedures include, <i>inter alia</i>: know your</p>

	<p>client, client money, client assets, disclosure, dealing, provision of advice, administration, compliance, and record-keeping. (See CP 19.)</p> <p>In the supervision of the international banks, great reliance is placed on off-site supervision through analysis of the quarterly/semi-annual/annual returns and annual audited accounts filed by the banks. The Inspector also relies to a large extent on the bank's external auditors. The auditor is required to report, pursuant to sections 35 and 36 of the IBA:</p> <ul style="list-style-type: none"> <li>• whether the licensee is carrying on business in accordance with the terms of its license in relation to financial and/or accounting matters and must include verification of compliance with the licensees undertaking on deposits;</li> <li>• whether the quarterly or semi-annual returns filed have been completed correctly and reflect the management accounts prepared by the licensee; and,</li> <li>• any irregularities, including serious financial difficulties, any criminal offences involving fraud or dishonesty, or losses that substantially reduce the capital funds of the licensee.</li> </ul> <p>All licensees are required under the IBA, section 26, to maintain all accounting records in Samoa. The returns and audited accounts filed by the licensees are analyzed by the Inspector's Accounts department. If there are any questions regarding the returns, further information is requested directly from the licensees. (See CP 18.)</p>
Assessment	Largely compliant.
Comments	<p>The Inspector should continue to diligently pursue the full implementation of its on-site examination program. This implementation program should include any necessary staff training.</p> <p>Given that all of the international banks now have a physical presence in Samoa, the Inspector should expand its on-site examination program and, accordingly, its on-site examination manual, to achieve more comprehensive coverage of all banks' operations and activities, including the validation of supervisory information, while at the same time maintaining its ongoing working relationships with bank external auditors.</p>
<b>Principle 17.</b>	<p><b>Bank Management Contact</b></p> <p>Banking supervisors must have regular contact with bank management and a thorough understanding of the institution's operations.</p>
	Domestic Banks
Description	<p>The CBS meets with key executives of banks to discuss, <i>inter alia</i>, relevant bank supervision issues and operational matters each quarter. From time to time, the Governor also becomes involved in other meetings and presentations to and from the banks. FID management and staff have regular, more frequent formal and informal contacts and meetings with banks on prudential and supervisory matters. Closing meetings are held with bank management at the conclusion of each on-site examination to discuss the examinations findings, followed-up by a written examination report letter.</p> <p>Off-site surveillance and reviews, on-site examinations, and ongoing regular contacts with bank management have provided the CBS with a good understanding of all of the activities that banks undertake. The CBS senior officials responsible for the analysis and collation of the various financial/prudential reports from the banks have also developed a good working relationship with bank reporting officials that greatly improves the CBS's understanding of major activities and the financial performance of the banks.</p> <p>While there is no specific requirement in the law that requires banks to provide timely notification to the CBS on substantive changes or material adverse developments, including</p>

	<p>breach of legal and prudential requirements, the requirements of PS 8, paragraph 4, imply that such reporting will occur. In regular practice, all of the banks do keep the CBS informed of substantive and material changes and developments, and discussions with bank management confirmed that they understand that they are expected to do so.</p> <p>The CBS's licensing process considers the quality, competence, and character of proposed directors and senior management. (See CP 3.) Proposed changes in bank directors and senior management must be presented to the CBS for fit-and-proper vetting. (See CP 14.)</p>
Assessment	Largely compliant.
Comments	The CBS should formalize their requirement that banks provide them with timely notification of substantive changes and material developments.
	International Banks
Description	<p>The Inspector has regular communication with the resident directors/managers of the offshore banks and meets with the overseas directors of the licensees on at least an annual basis.</p> <p>The Inspector has expressed the view that off-site surveillance reviews, the establishment of the banks' physical presence in Samoa, and regular meetings/contacts with international banks' overseas/local directors and management have provided the Inspector with sufficient information to understand the general activities of the licensees. The further expansion of the on-site examination program should enhance this knowledge. However, since full "mind and management" of the banks is still not present in Samoa, there are still limitations on the Inspector's ability to obtain a detailed understanding of all of the banks' activities.</p> <p>Section 19 of the IBA requires that any proposed changes in the directors or chief executive of the banks be presented to the Inspector for "fit and proper" vetting and written approval.</p>
Assessment	Largely compliant.
Comments	The Inspector should consider requiring more frequent meetings with overseas directors and/or senior management of the international banks, to provide a vehicle for developing a more complete and detailed understanding of their activities, policies, procedures, systems, and controls.
<b>Principle 18.</b>	<p><b>Off-Site Supervision</b></p> <p>Banking supervisors must have a means of collecting, reviewing, and analyzing prudential reports and statistical returns from banks on a solo and consolidated basis.</p>
	Domestic Banks
Description	<p>Weekly, monthly and quarterly prudential returns, as appropriate, provide the CBS with a range of information on the condition and performance of banks. This includes, <i>inter alia</i>, information regarding on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, loss provisioning and non-performing assets, interest rate risk, and deposit sources. However, detailed information is not collected on asset classification, connected lending, or country exposures. Further review of the required reporting is being undertaken to address other relevant information on banks' activities, as well as the latest detailed IMF financial sector reporting requirements.</p> <p>FIA, section 9 (2), provides the CBS with the general power to require periodical returns and other information from banks, within a prescribed time and in a prescribed form, as needed.</p> <p>There are currently no domestic or foreign subsidiaries of banks licensed in Samoa, but it appears that the CBS could also rely on the CBSA, section 38, to collect data on a consolidated basis and the discretionary powers in FIA, section 8, to apply the determination of a consolidated capital ratio.</p>

	<p>PS 8 requires that banks' systems provide information that is based on generally accepted accounting principles. In addition, financial statements prepared for public disclosure purposes must follow international accounting and auditing standards.</p> <p>Section 9 of the FIA gives the CBS absolute discretion to impose an administrative fine on an institution, director, or officer for delaying the submission of a return or willfully submitting false or inaccurate information.</p> <p>The FID analyzes the information in the returns, follows up with the banks to clarify and expand its understanding of the information, and provides appropriate information to senior CBS management on individual banks and the industry.</p>
Assessment	Largely compliant.
Comments	The CBS should consider expanding its periodic reporting requirements to include detailed information on classified assets, connected lending, and country exposures.
	International Banks
Description	<p>Section 30 of the IBA requires a licensee to furnish to the Inspector such information in respect of its international banking business or any other matter as the Minister or the Inspector may from time to time direct.</p> <p>The Inspector has broad powers to obtain any reports and information it may require and adequate enforcement powers to effect such requirements, if necessary. Such powers include, pursuant to sections 43 and 44,:</p> <ul style="list-style-type: none"> <li>• requiring licensees to take such measures as the Minister considers necessary;</li> <li>• imposing conditions upon the licensee;</li> <li>• removal and replacement of any directors and officers of the bank;</li> <li>• appointing an adviser to the bank;</li> <li>• appointing a receiver/manager of the bank;</li> <li>• presenting a petition to the Court for the winding up of the licensee in appropriate circumstances; or,</li> <li>• cancelling the license.</li> </ul> <p>During the implementation of the requirement that licensees maintain a physical presence in Samoa, several licensees were revoked when they would not agree to maintain their records in Samoa, as required.</p> <p>All annual audited accounts must be prepared according to international accounting standards. Quarterly/semi-annual returns must be filed with the Inspector. These returns provide detailed balance sheets, profit and loss statements, and, <i>inter alia</i>, data on loan classifications, connected lending, contingent liabilities, large exposures, provisioning, and large deposit sources. Quarterly returns are received from A and B1 banks; while returns from B2 banks are received semi-annually.</p> <p>Failure to comply with the requirements for the filing of returns is an offence under the IBA, section 28 (4). Upon conviction, a licensee can be fined a maximum of US\$1,000 for every day during which the offence continues.</p> <p>Under section 29 of the IBA, the Inspector's rights of inspection of all of a licensee's records are authorized, subject to the Inspector's reasonable belief that such action is required to carry out his functions under the Act or as part of a regular on-site inspection.</p> <p>Available reports are reviewed and analyzed by the Accounts staff of the Inspector and appropriate information is provided to the Inspector's senior management. Information is shared with the IMF pursuant to its Information Dissemination Project.</p>

Assessment	Largely Compliant.
Comments	The Inspector should consider expanding the periodic reporting requirements to include detailed information on classified assets, country exposures, liquidity, and interest rate risk.
<b>Principle 19.</b>	<b>Validation of Supervisory Information</b> Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.
	Domestic Banks
Description	<p>The CBS is now implementing an on-site examination program which is intended to include the banks' overall operations and activities. To date, the CBS has conducted on-site examinations of credit risk management and anti-money laundering systems in all banks. Further expansion of the program is planned, although staff resources and training remain issues affecting such expansion. Technical assistance has been obtained and staff training programs are ongoing, particularly from external sources.</p> <p>The CBS has used the external auditors in some instances for independent validation of data submitted. The CBS holds meetings with external auditors and banks following statutory audits each year to obtain a briefing on significant findings.</p> <p>Pursuant to FIA, section 10, bank external auditors must hold a current certificate of public practice issued under the Public Accountants Act and must be acceptable to the CBS. The same section allows the CBS to require a bank to supply a report by its external auditor on such matters as the CBS may determine, which may include an opinion on the adequacy of provisions and accounting and control systems. Section 11 allows the CBS to delegate its powers of inspection to other persons designated as examiners.</p> <p>The supervisor has the legal right of access to all bank records for the purposes of on-site examination, pursuant to FIA, section 11. In addition, without going on-site, the CBS can obtain access to specific documents pursuant to FIA, section 9. There is no specific reference to access to bank directors, senior management, and staff, but this is reasonably implied, pursuant to its authority under section 11 to conduct on-site examinations.</p> <p>The CBS meets with audit firms from time to time to discuss matters of mutual interest.</p>
Assessment	Largely compliant.
Comments	The CBS should continue the expansion of its on-site examination program to achieve more comprehensive coverage of all banks' operations and activities, including the validation of supervisory information, while at the same time maintaining its ongoing working relationships with bank external auditors.
	International Banks
Description	<p>With full implementation of the requirement, pursuant to the demands of section 11 of the IBA and the rules set out in Practice Note No. 2, for the international banks to establish a physical presence in Samoa now completed, the Inspector is developing an on-site examination capacity. However, a regular program of on-site examinations has not yet commenced. To date, on-site examinations of only the banks' implementation of the Inspector's physical presence requirements and their anti-money laundering systems and procedures have been conducted. In the interim, the Inspector also continues to rely on the external auditors to validate supervisory information.</p> <p>Under sections 35 of the IBA, the auditor is required to report:</p> <ul style="list-style-type: none"> <li>• whether the licensee is carrying on business in accordance with the terms of its license; and,</li> </ul>

	<ul style="list-style-type: none"> <li>whether the quarterly or semi-annual returns filed have been completed correctly and reflect the management accounts prepared by the licensee.</li> </ul> <p>In the past, the Inspector's staff has also participated in CBS on-site inspections of licensees which were carried out in conjunction with external auditors. The purpose of the inspection was, <i>inter alia</i>, to verify supervisory information.</p> <p>The Inspector has the authority to monitor the quality of the work done by external auditors. Under IBA, section 35, audits may be performed only by auditors approved by the Inspector. An approved auditor, both individuals and companies, must be registered under the provisions of section 10 of the International Companies Act 1987. The Inspector also has the right to appoint an approved auditor for a bank, if the bank fails to fill a vacancy for bank auditor. Section 35 also confers on approved auditors all of the duties and powers conferred on examiners in Section 34(3).</p> <p>Under the IBA, section 36, the Inspector can require a licensee to supply a report, prepared by the auditor, on such matters as he may determine, including the adequacy of the accounting and control systems. The Inspector can require the auditor to report the extent of the adequacy of procedures adopted by the bank, to enlarge the scope of the audit, or direct any other procedure to be performed.</p> <p>Under section 34(3) of the IBA, the Inspector has the legal right of full access to all bank records, including customer account information, as well as oral information concerning the licensee's business.</p> <p>The Inspector regularly meets with the local audit firms to discuss issues of banking supervision.</p>
Assessment	Largely compliant.
Comments	The Inspector should expand its on-site examination program to achieve more comprehensive coverage of all banks' operations and activities, including the validation of supervisory information, while at the same time maintaining its ongoing working relationships with bank external auditors.
<b>Principle 20.</b>	<b>Consolidated Supervision</b>
	An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.
	Domestic Banks
Description	<p>At present, there are no subsidiaries of Samoan banks operating within or outside of Samoa. There are no branches of Samoan banks operating outside of Samoa.</p> <p>The FIA, section 20, requires a bank to obtain written CBS approval to open additional places of business, whether branches or other offices, including a branch office or subsidiary, outside of Samoa.</p> <p>Those Samoan banks which are subsidiaries of foreign banks are subject to consolidated supervision by their home country supervisory authority.</p>
Assessment	Not applicable.
Comments	While there are presently no subsidiaries operating within or outside of Samoa, the planned update of the FIA should clarify that the CBS has the authority to apply all of its supervisory requirements on a consolidated basis.
	International Banks
Description	There are currently no subsidiaries of Samoan-licensed international banks operating within or outside of Samoa that are engaged in conducting banking-related business.

	<p>The IBA, section 21(1) (a), requires that an international bank obtain the Inspector's approval to open a subsidiary bank, branch office, agency, or representative office outside of Samoa.</p> <p>The Minister and the Inspector have broad powers to compel provision of information, reports, and returns from licensees, including from subsidiaries located outside of Samoa. All information on overseas operations of international banks is to be included as part of the international bank's quarterly/semi-annual returns and in its annual audited accounts. Pursuant to section 26 of the IBA, all accounting records are required to be maintained in Samoa.</p>
Assessment	Not applicable.
Comments	None.
<b>Principle 21.</b>	<b>Accounting Standards</b>
	<p>Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.</p>
	Domestic Banks
Description	<p>PS 1 contains a general statement to the effect that the ultimate responsibility for the affairs of a bank resides solely in its board of directors and management. The Companies Act also requires the board of a company to be responsible for the proper maintenance of accounting records. PS 8 requires that a bank have adequate and effective accounting systems and that these systems are able to produce the reports required by the CBS.</p> <p>No specific guidelines have been issued or review conducted of the scope of external audit work to date. Nor are there any specific guidelines that define the role and responsibilities of a bank's board of directors and management (i.e., corporate governance). In the case of the two largest banks, the parent bank/banking group accounting policies and practices have been adopted which external auditors believe are consistent with international standards. The accounting policies and practices of the two locally-owned banks are within international accounting standards and are subject to review by their external auditors using international auditing standards.</p> <p>The CBS has no express power to revoke the appointment of a bank's auditor, but the annual appointment of auditors must be acceptable to the CBS, pursuant to the FIA, section 10 (1).</p> <p>In terms of the FIA, sections 10 (3) and (4), every bank is required, within three months of the close of its financial year, to submit to the CBS a copy of its audited balance sheet and profit and loss accounts, together with any notes thereon, and a copy of the report of the external auditor. Within four months of the close of its financial year, the bank must publish these audited financial statements in a newspaper circulating in Samoa.</p> <p>PS 7 specifies that realistic valuation of assets and prudent recognition of income and expense are critical factors in evaluating the financial condition and performance of banks. Valuation rules are specified only for the credit portfolio and include broad guidelines on the qualitative classification and minimum provisioning levels for classified and non-classified loans.</p> <p>FIA, section 10 (5), requires auditors to report immediately to the CBS if they are of the opinion that a bank is insolvent or likely to be unable to meet its obligations; a criminal offence involving fraud or dishonesty has been committed; serious irregularities have occurred; losses have been incurred which will substantially reduce capital; or they are unable to confirm that the claims of creditors are unlikely to be covered by assets. No civil or</p>

	criminal proceedings may be taken against an auditor who discloses information in good faith to the CBS.
Assessment	Largely compliant.
Comments	More specific guidelines on the role and responsibilities of a bank's board of directors and management (i.e., corporate governance) are needed to clarify the more important areas of their mandate.
	International Banks
Description	<p>Under section 35 of the IBA, all audited accounts of international banks must be prepared to international accounting standards.</p> <p>Pursuant to the IBA, section 35, the auditor is required to report:</p> <ul style="list-style-type: none"> <li>• whether proper books have been kept, and, where applicable, whether returns obtained from branches were adequate for the audit;</li> <li>• whether the balance sheet and accounts are in agreement with the company's books;</li> <li>• whether the balance sheet is full and fair and properly drawn up and exhibits a true and fair statement of the licensee's affairs;</li> <li>• whether information obtained from officers and agents of the licensee, when required by the auditor, is satisfactory;</li> <li>• whether the licensee is carrying on business in accordance with the terms of its license in so far as the terms relate to financial or accounting matters; and,</li> <li>• whether, in the auditor's opinion, the quarterly and semi-annual returns filed by the licensee have been completed correctly in accordance with the reporting instructions and accurately reflect the management accounts as prepared by the licensee.</li> </ul> <p>Under section 36 (1) of the IBA, auditors have a statutory duty to, where necessary, enlarge or extend the scope of an audit and carry out any examination or establish a procedure so as to give a true and fair view of the licensee's financial condition, and any such procedure or action must be disclosed in the report.</p> <p>Auditors also have the duty, under the IBA, section 36 (2), to report immediately to the Inspector, without notifying the licensee, where:</p> <ul style="list-style-type: none"> <li>• the licensee is insolvent or in serious financial difficulties;</li> <li>• a criminal offence involving fraud or dishonesty has been committed;</li> <li>• serious irregularities have occurred, including those that jeopardize the interests of depositor or creditors;</li> <li>• losses have been incurred that substantially reduce the capital funds of the licensee; or,</li> <li>• the auditor is unable to confirm that the creditors claims are still covered by the licensee's assets.</li> </ul> <p>Every auditor must be approved by the Inspector and also be registered as a company auditor under the International Companies Act 1987. An "approved auditor" means a chartered accountant, a certified public accountant, or other professionally-qualified accountant who has been approved by the Inspector and who is a registered company auditor under the International Companies Act 1987. If there are concerns as to any particular auditor, it is possible to make application to the Registrar of International Companies for a revocation of the company auditor registration. The Inspector does not have specific powers to revoke the appointment of an auditor.</p>



	<p>Under the IBA, sections 35 (1) and 36 (2), the auditor must report to the Inspector any matters of material significance. Auditors are protected in making such disclosures under section 36 (5).</p> <p>The auditor is also required under provisions of the IBA and the MLPA2007 to report any possible criminal offence involving money laundering and, as necessary, to file STRs with the FIU.</p> <p>Neither the IBA nor the Inspector require the disclosure of information or the annual publication of audited accounts by the licensees. Currently, no international bank licensee accepts deposits from the general public, pursuant to the limitations of their licenses.</p>
Assessment	Largely compliant.
Comments	<p>There is no requirement for public disclosure of information relating to international banks and they are not required to publish annual accounts or reports. If, in the future, licenses are granted, or amended, which would permit acceptance of deposits from the general public, the Inspector should consider requiring those affected licensees to provide disclosures and audited financial accounts to their depositors.</p> <p>More specific guidelines on the role and responsibilities of a bank's board of directors and management (i.e., corporate governance) are needed to clarify the more important areas of their mandate.</p>
<b>Principle 22.</b>	<p><b>Remedial Measures</b></p> <p>Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation.</p>
	Domestic Banks
Description	<p>Where remedial actions need to be taken, the CBS has a broad range of powers in terms of sections 13, 14, 15, and 23 of the FIA, including revocation of the license. In addition, under FIA, section 26, the Attorney General is empowered to institute proceedings to prevent and restrain any breach of the Act and to prosecute offences. Under section 29, the HOS, acting on the advice of Cabinet, may make regulations for giving full effect to the Act.</p> <p>The powers referred to in FIA, section 14, include the power to direct that a bank take whatever action in relation to its business as the CBS may specify. There is no specific power to arrange a takeover of a bank, but the CBS can take control of a bank with court approval. Another option for the CBS, pursuant to sections 14 and 15 of the FIA, is to appoint, with the approval of the court, a qualified person to advise, manage, liquidate, or place the bank receivership. The court must also approve the powers of the CBS or the appointed person, in such situations.</p> <p>FIA, section 23, allows the CBS to take action against directors or officers for noncompliance with the Act or for aiding or abetting others to violate the Act. Penalties range from a monetary fine to imprisonment for up to one year or both.</p> <p>Section 16 of the Act provides for monetary and imprisonment penalties for misleading or obstructive conduct by directors, officers, or employees.</p> <p>Remedial actions are, whenever possible, taken in a timely manner. However, as stated above, certain actions do require application to and approval by a Court, possibly causing delay and allowing conditions to deteriorate further.</p>

Assessment	Largely compliant.
Comments	Discussions on possible updates to the FIA should include consideration on limiting the level of involvement of the Court in the process of effecting remedial action, in order to provide for more timely resolution of problems.
	International Banks
Description	<p>The Inspector and the Minister have a broad range of supervisory measures available to bring about timely corrective action, under IBA, Part V.</p> <p>Under Sections 43 and 44, the Minister can:</p> <ul style="list-style-type: none"> <li>• require licensees to take such measures as he considers necessary;</li> <li>• impose conditions upon the licensee;</li> <li>• remove and replace any directors and officers of the bank;</li> <li>• appoint an adviser to the bank;</li> <li>• appoint a receiver/manager of the bank;</li> <li>• present a petition to the Court for the winding up of the licensee in appropriate circumstances; or,</li> <li>• cancel the license.</li> </ul> <p>Under Section 45, the Minister can also intervene in the winding up proceedings before the Court, if the winding up is not being conducted in the best interests of the depositors or creditors.</p> <p>There are no specific legislative requirements for remedial action to be taken within a specified timeframe.</p> <p>Any decision to institute remedial action is communicated to the bank, its controllers, and its management.</p> <p>Under IBA, (Section 23, a licensee is prohibited from transacting any business otherwise than in accordance with the terms and conditions of its license and the Act. Every person who acts in contravention of Section 23 commits an offence and is liable to a continuing fine of US\$1,000 for each day that the offence continues [Section 23(3)].</p>
Assessment	Compliant.
Comments	None.
<b>Principle 23.</b>	<b>Globally Consolidated Supervision</b>
	Banking supervisors must practice global consolidated supervision over their internationally active banking organizations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations worldwide, primarily at their foreign branches, joint ventures, and subsidiaries.
	Domestic Banks
Description	There are currently no branches or subsidiaries of Samoan banks operating outside of Samoa. .
Assessment	Not applicable.
Comments	None.
	International Banks
Description	There are currently no branches or subsidiaries of Samoan-licensed international banks operating outside of Samoa.

Assessment	Not applicable.
Comments	None.
<b>Principle 24.</b>	<b>Host Country Supervision</b> A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.
	Domestic Banks
Description	There are currently no branches or subsidiaries of Samoan banks operating outside of Samoa. There is no explicit requirement in the FIA that would prevent the establishment of operations in countries with secrecy laws or other regulations prohibiting flows of supervisory information; however, the establishment of all overseas subsidiaries and branches of Samoan banks require prior written approval from the CBS under Section 20 of the FIA. Section 24 of the FIA permits the confidential disclosure of supervisory information to foreign supervisors for the purpose of exercising supervisory functions corresponding to or similar to those of the CBS.
Assessment	Not applicable.
Comments	None.
	International Banks
Description	There are currently no branches or subsidiaries of Samoan-licensed international banks operating outside of Samoa. There is no provision in the IBA prohibiting the establishment of operations in countries with secrecy laws or other regulations prohibiting the flow of information; however, the establishment of all overseas subsidiaries and branches of Samoan-licensed international banks require the prior written approval from the Inspector under Section 21 (1)(a) of the IBA. Pursuant to section 37(1) (3), the Inspector may disclose information about the banking license to a foreign banking supervisory authority, if the Inspector is satisfied that the foreign authority is subject to adequate legal restrictions and provides an undertaking of confidentiality, and the information provided is to be used for bank supervisory purposes.
Assessment	Not Applicable.
Comments	None.
<b>Principle 25.</b>	<b>Supervision Over Foreign Banks' Establishments</b> Banking supervisors must require the local operations of foreign banks to be conducted with the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.
	Domestic Banks
Description	Local operations of foreign-owned banks are carried out through subsidiaries and are subject to the same supervisory regime as domestically-owned banks. Licensing requirements and ongoing supervision take into account standards recommended by the Basel Committee on Banking Supervision on cross-border banking. Currently, two Samoan-licensed banks are subsidiaries of Australian banks. In its ongoing supervision of these two subsidiaries, the CBS takes into account that the parent banks are subject to the consolidated global supervision of the Australian Prudential Regulation

	<p>Authority.</p> <p>Licensing requirements under FIA, section 6, require the CBS to have regard to the relevant law and regulatory requirements in a financial institution's country of incorporation.</p> <p>Section 6 of the FIA requires the CBS to obtain written confirmation of no objection from a supervisor in the applicant's country of incorporation before a license is granted.</p> <p>FIA Section 24 permits disclosure in confidence to a supervisory authority in any country for the purposes of the exercise of functions corresponding to or similar to those conferred on the CBS under the Act.</p> <p>There are no prohibitions on parent bank supervisors conducting on-site examinations of subsidiary operations in Samoa. There has not yet been an instance where the parent bank supervisor has conducted an on-site examination of local subsidiaries.</p>
Assessment	Compliant.
Comments	None.
	International Banks
Description	<p>There are no operations of foreign banks in Samoa that are licensed as international banks.</p> <p>Under the IBA, any subsidiaries of foreign banks that are licensed as international banks would be regulated and supervised within the same standards as other international banks.</p> <p>For purposes of the licensing process, the home supervisor of the foreign bank applicant would be contacted to determine their position on the Samoan international bank application and whether the Samoan international bank would be subject to consolidated supervision.</p>
Assessment	Not applicable.
Comments	None.

Table 2. Domestic Banking Sector: Summary of Compliance with the Basel Core Principles

Core Principle	C <sup>1/</sup>	LC <sup>2/</sup>	MNC <sup>3/</sup>	NC <sup>4/</sup>	NA <sup>5/</sup>
1. Objectives, Autonomy, Powers, and Resources	X				
1.1 Objectives	X				
1.2 Independence	X				
1.3 Legal framework	X				
1.4 Enforcement powers	X				
1.5 Legal protection	X				
1.6 Information sharing	X				
2. Permissible Activities	X				
3. Licensing Criteria	X				
4. Ownership	X				
5. Investment Criteria		X			
6. Capital Adequacy	X				
7. Credit Policies			X		
8. Loan Evaluation and Loan-Loss Provisioning		X			
9. Large Exposure Limits		X			
10. Connected Lending			X		
11. Country Risk			X		
12. Market Risks					X
13. Other Risks			X		
14. Internal Control and Audit		X			
15. Money Laundering		X			
16. On-Site and Off-Site Supervision		X			
17. Bank Management Contact		X			
18. Off-Site Supervision		X			
19. Validation of Supervisory Information		X			
20. Consolidated Supervision					X
21. Accounting Standards		X			
22. Remedial Measures		X			
23. Globally Consolidated Supervision					X
24. Host Country Supervision					X
25. Supervision Over Foreign Banks' Establishments	X				

<sup>1/</sup> C: Compliant.

<sup>2/</sup> LC: Largely compliant.

<sup>3/</sup> MNC: Materially noncompliant.

<sup>4/</sup> NC: Noncompliant.

<sup>5/</sup> NA: Not applicable.

Table 3. International Banking Sector: Summary of Compliance with the Basel Core Principles

Core Principle	C <sup>1/</sup>	LC <sup>2/</sup>	MNC <sup>3/</sup>	NC <sup>4/</sup>	NA <sup>5/</sup>
1. Objectives, Autonomy, Powers, and Resources	X				
1.1 Objectives	X				
1.2 Independence	X				
1.3 Legal framework	X				
1.4 Enforcement powers	X				
1.5 Legal protection	X				
1.6 Information sharing	X				
2. Permissible Activities	X				
3. Licensing Criteria	X				
4. Ownership	X				
5. Investment Criteria		X			
6. Capital Adequacy				X	
7. Credit Policies				X	
8. Loan Evaluation and Loan-Loss Provisioning				X	
9. Large Exposure Limits				X	
10. Connected Lending			X		
11. Country Risk				X	
12. Market Risks				X	
13. Other Risks				X	
14. Internal Control and Audit			X		
15. Money Laundering		X			
16. On-Site and Off-Site Supervision		X			
17. Bank Management Contact		X			
18. Off-Site Supervision		X			
19. Validation of Supervisory Information		X			
20. Consolidated Supervision					X
21. Accounting Standards		X			
22. Remedial Measures	X				
23. Globally Consolidated Supervision					X
24. Host Country Supervision					X
25. Supervision Over Foreign Banks' Establishments					X

<sup>1/</sup> C: Compliant

<sup>2/</sup> LC: Largely compliant

<sup>3/</sup> MNC: Materially noncompliant

<sup>4/</sup> NC: Noncompliant

<sup>5/</sup> NA: Not applicable

## Recommended action plan and authorities' response to the assessment

### *Recommended action plans*

Table 4. Domestic Banking Sector: Recommended Action Plan to Improve Compliance with the Basel Core Principles

Reference Principle	Recommended Action
CP 1(2) Adequate Resources	In view of the increased volume of on-site examinations the CBS should increase the human resources available to the FID.
CP 5 Investment Criteria	The FIA should be amended to limit the proportion of the equity of an individual non-financial enterprise which a bank may acquire (within the existing aggregate limit of 10 percent of its capital plus unimpaired reserves). Such investments should be limited to a maximum of 15 percent of the share capital or voting rights in a non-financial enterprise.
CP6 Capital Adequacy	The CBS should consider introducing some straightforward specific capital charges for market price risk and Foreign Exchange risk.
CP8 Loan Evaluation and Provisions	The CBS should require banks to have in place mechanisms for regularly valuing collateral and assessing the strength of guarantees.
CP7 Credit Policies	The CBS should issue more detailed guidance to banks on the standards which it expects them to observe in their individual credit policies and use these to evaluate the effectiveness of banks' policies and procedures for controlling credit risk.
CP9 Large Exposures	During examinations the CBS should strengthen its assessment of the adequacy of banks' own internal systems for identifying groups of related borrowers and controlling credit concentrations.  Banks should be required to report all single exposures (as currently defined) which exceed 10 percent of capital (i.e. including many exposures which fall below the 25 percent ceiling) since the present quarterly return of each bank's 10 largest borrowers may not capture all single exposures which exceed 25 percent of capital and does not provide sufficient information for fully effective monitoring of concentration risk.
CP10 Connected Lending	The CBS should have specific discretionary power to make judgments on specific issues on connected lending. The CBS should validate compliance with the law and CP6 through off-site surveillance and on-site examination. The CBS should periodically collect information on connected lending exposures.
CP11 Country Risk	The PS should be appropriately amended to address country and transfer risk. The CBS should periodically collect information on country and transfer risk exposures.
CP13 Other Risks	The CBS should issue appropriate PS guidance on Operational Risk and Interest Rate Risk.

Reference Principle	Recommended Action
CP14 Internal Controls and Audit	<p>The FIA should be amended to include authority for the CBS to change a bank's board of directors and/or senior management in appropriate circumstances and require specific prior approval of proposed changes in directors and senior management.</p> <p>The CBS should issue appropriate guidelines on corporate governance.</p>
CP15 Money Laundering	<p>The CBS, as the MLA, should expeditiously complete the drafting of required new regulations and guidance.</p>
CP16 On-Site and Off-Site Supervision	<p>The CBS should diligently pursue full implementation of its on-site examination program.</p>
CP17 Bank Management Contact	<p>The CBS should formalize the requirement for timely notification of substantive changes and material developments.</p>
CP18 Off-Site Supervision	<p>The CBS should expand periodic reporting requirements to include detailed information on classified assets, connected lending, and country exposures.</p>
CP19 Validation of Supervisory Information	<p>The CBS should expand its on-site examination program to include validation of supervisory information.</p>
CP22 Remedial Measures	<p>The CBS should consider possible amendments to the FIA to limit the involvement of the Court in taking administrative remedial actions.</p>
CP21 Accounting Standards	<p>The CBS should issue appropriate guidelines on corporate governance.</p>



Table 5. International Banking Sector: Recommended Action Plan to Improve Compliance with the Basel Core Principles

Reference Principle	Recommended Action
CP5 Investment Criteria	The IBA should be amended to limit the proportion of the equity of an individual non-financial enterprise which an international bank may acquire (within the existing aggregate limit of 60 percent of its capital plus unimpaired reserves). Each investment in a non-financial enterprise should be limited to a maximum of 15 percent of the share capital or voting rights in that enterprise.
CP6 Capital Adequacy	Each International bank should be subject to a minimum capital requirements which reflect its individual risk profile.
CP7 Credit Policies	The Minister and Inspector should develop a regulatory code for the standards which they expect international banks to meet in their individual credit policies. It could be efficient to develop such a code in co-operation with similar work being undertaken by the CBS.
CP8 Loan Evaluation and Loan Loss Provisions	The Minister and Inspector should issue a regulatory code requiring international banks to have internal systems for regularly reviewing their loans and other exposures, classifying these and making any necessary provisions for losses on a timely basis.
CP9 Large Exposures	The Minister and Inspector should issue a regulatory code which requires international banks to address concentration risk . This should include, <i>inter alia</i> , a definition of closely related groups (which have to be treated as single borrowers), a requirement to report all individual exposures which exceed 10 percent of capital and a prohibition on incurring single exposures which exceed 25 percent of capital without the prior permission of the Inspector.
CP10 Connected Lending	The IBAA should be amended to prevent connected lending on more favorable terms than is available to unconnected parties and to require that such lending is approved by the bank's board of directors, with the affected director or other connected person excluded from the assessment of and decision-making on the transaction.  The Inspector should require independent information systems for such exposures.

Reference Principle	Recommended Action
CP11 Country Risk	The Inspector should issue appropriate guidance on all aspects of country risk management and related information systems and internal controls. The Inspector should periodically collect information on country and transfer risk exposures.
CP12 Market Risk	The Inspector should assess the level of market risk in the international banks and issue appropriate risk management, internal control, and information systems requirements and limitations. The Inspector should periodically collect appropriate information on market risk exposures.
CP13 Other Risks	The Inspector should issue appropriate guidance on liquidity risk, operational risk, and interest rate risk.
CP14 Internal Controls and Audit	The Inspector should issue specific guidance on internal controls and audit. The Inspector should issue specific guidance on corporate governance. The Inspector should fully implement the on-site examination program to address risk management, internal controls, and audit systems.
CP15 Money Laundering	The Inspector should take part, as necessary, in the drafting of required new regulations and guidelines.
CP16 On-Site and Off-Site Supervision	The Inspector should diligently pursue full implementation of its on-site examination program. The Inspector should expand the on-site examination program to achieve comprehensive coverage of all aspects of the banks' activities and operations.
CP17 Bank Management Contact	The Inspector should hold more frequent meetings with overseas directors and senior management of the international banks.
CP18 Off-Site Supervision	The Inspector should expand periodic reporting to include information on classified assets, country exposure, liquidity, and interest rate risk.
CP19 Validation of Supervisory Information	The Inspector should expand the on-site examination program to include validation of supervisory information.
CP21 Accounting Standards	The Inspector should provide for the public disclosure of information on international banks that accept deposits from the general public, when applicable. The Inspector should provide guidance on corporate governance to the international banks.

*Authorities' response to the assessment*

12. In reference to the Offshore Financial Center (OFC) Assessment of Samoa's financial system undertaken by the IMF from 27 February to 8 March 2007, the assessment recognizes considerable improvements being achieved over the past years in terms of the prudential oversight of the licensed financial institutions. Such progress encompasses efforts by the Central Bank of Samoa (CBS) and the Samoa International Finance Authority (SIFA) towards strengthening the existing legislative and regulatory frameworks, policies and procedures for the prudential supervision of both domestic and international banks in Samoa.

13. Equally important, such improvements bring Samoa's financial system significantly in line with internationally recognized standards as promulgated by the Basel Core Principles of the Basel Committee as compared to the previous IMF assessment.

14. On the domestic front, several recommendations to further improve the regulatory role of the CBS in accordance with current international standards have been noted and future efforts shall focus to incorporate and develop as appropriate, the necessary changes in terms of the relevant legislation, prudential statements, regulations, guidelines and the staff capacity towards proper management of the CBS's supervisory responsibility.

15. With regards to the international finance sector, the regulatory authority (SIFA) notes the recommended action plan and shall review the current legislation and prevailing prudential requirements as a result, with a view to further improving the supervision of international banks as per international standards.