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# International standards and recommendations for implementing compliance control systems in the banking sector

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**Abstract:** This paper explores the international standards and recommendations for implementing compliance control systems in the banking sector. Compliance control systems are essential for ensuring that banks operate within legal and regulatory frameworks, thereby maintaining financial stability and integrity. The study examines key guidelines and best practices from global regulatory bodies, such as the Basel Committee on Banking Supervision, the OECD, the Wolfsberg Group, the World Bank, and the Financial Action Task Force, highlighting their significance in fostering a robust compliance culture. Furthermore, it analyses the challenges and benefits associated with adopting these standards, providing insights into effective implementation strategies for banking institutions.

**Keywords:** Compliance control systems, banking sector, international standards, regulatory frameworks, Basel Committee on Banking Supervision, Financial Action Task Force, OECD, The Wolfsberg Group, compliance culture, legal regulations.

**Introduction:** The banking sector, which serves as the foundation of global economic stability, operates within a complex network of regulations and standards aimed at ensuring its integrity, transparency, and reliability. In an era characterised by globalisation and technological advancement, implementing robust compliance control systems has become crucial. International standards and recommendations play a significant role in forming these systems, ensuring uniformity, improving risk management, and ensuring the overall security of the sector.

Extensive research conducted by scientists has shown

that corruption acts as a factor negatively impacting global financial crises and the balance of banks. Specifically, it has been determined that the primary cause of the East Asian financial crises in 1997-1998 was corruption.

For instance, the corruption cases associated with the "Hanbo" corporation in the Republic of Korea, characterized by "strong ties" between companies and politicians, serve as a typical example of how these connections led to a serious deterioration in the quality of bank assets and ultimately to a financial crisis. Similarly, we can observe this in the example of the "Global Financial Crisis" that occurred in 2008.

Based on the above circumstances, we will hierarchically outline the international norms and recommendations aimed at preventing corruption risks in banks, according to the authority and power of the organizations that develop them.

The UN Convention against Corruption. The Convention was adopted by the General Assembly in its resolution 58/4 of 31 October 2003.

It should be noted that during this period, the necessity of implementing the convention arose not only to enhance and improve our country's international reputation in the fight against corruption but also, on the other hand, it became evident that effective preventive measures against such crimes, rather than merely dealing with their consequences, should be applied.

An Anti-Corruption Ethics and Compliance Programme: UNODC's Practical Guide for Business explains that the development of recommendations for combating corruption on an international scale is due to the increasing incidence of corruption-related offenses. With the adoption of the United Nations Convention against Corruption, the necessity for strengthening anti-corruption measures has been firmly established not only for state institutions but also for participants in the private sector at an international level. The convention's articles, such as "Private Sector" (Article 12), "Bribery in the Private Sector" (Article 21), "Embezzlement of Property in the Private Sector" (Article 22), and "Cooperation between National Authorities and the Private Sector" (Article 39), provide recommendations for identifying and preventing corruption risks and implementing preventive measures within the activities of private sector participants.

They consist of the following:

- Implementing measures to encourage cooperation between state and private sector participants in combating corruption-related crimes;

- Establishing standards aimed at ensuring transparency and openness in their activities and preventing conflicts of interest, and encouraging these measures;

- Preventing conflicts of interest that may arise from the commercial activities of officials in state organizations;

- Introducing internal control mechanisms within the organization's activities, as well as implementing procedures for auditing and certifying their economic activities and financial reports.

In general, the convention specifically emphasizes the necessity of implementing measures to ensure the transparency of accounting and financial reporting, accounting standards, internal audit, and internal control mechanisms to minimize corruption-related offenses in the activities of any organization.

#### **Accepted standards and recommendations by the Organisation for Economic Co-operation and Development (OECD).**

The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions recommends taking strict measures to prevent and minimize corruption risks. The Convention emphasizes the importance of implementing internal oversight mechanisms, such as:

- Developing and adopting corporate ethical standards (codes of conduct).

- Disclosing information on the operation of internal oversight mechanisms in annual reports.

- Establishing systems that encourage reporting of corruption cases by individuals who do not tolerate breaches of professional and ethical norms, ensuring their protection under whistleblower systems.

It's possible that the preventive measures outlined here could be organized under a "compliance-audit" system. Another document intended to regulate this area is the Good Practice Guidance on Internal Controls, Ethics, and Compliance.

Joe Murphy and Donna Boehme's scholarly article, "Commentary on the OECD good practice guidance on internal controls, ethics and compliance," emphasizes the critical need for proactive measures against corruption in the private sector. Specifically, it highlights various forms of corruption, such as gift and hospitality practices, different types of bribery, and facilitation payments. The article underscores the importance of adhering to regulations, such as those outlined in compliance oversight systems, to effectively combat corruption.

In this case, it is especially emphasized that the organization should take this aspect into account in order to implement the comprehensive preventive

system in its activities.

The next document published by this international organization is the 2011 Regional Document of the Anti-Corruption Partnership "Global Anti-Corruption Policy Declaration".

In this document, there is a separate provision entitled "Privacy, extortion, bribery, and bribery" in which the following aspects of bribery and its prevention in the organization's activities are specified separately:

1. Limitation of the risk of co-operation between the civil servant and the official representative.
2. Prohibition of the use of third-party force for sexual intercourse.
3. Prohibition of public payment or minimization at the lowest level.
4. Due diligence - assessment of the reliability of the third party.
5. Development of a closed "complacency-nazopath" dactuplap to prevent the risk of coppuption during operation.
6. Ensuring transparency of activity and regular reporting to the public.

In this way, the OECD's "Guidelines on corporate governance of state-owned enterprises" emphasizes the importance of closing the "compliance" document and the code of ethics in order to ensure the activity of the state and legal cooperation in the field of cooperation.

Another important document aimed at preventing co-optation in the state and public sector is the Global Principles for Combating Corruption, developed in 2004 by the Partnering Against Corruption Initiative. The public document includes members of the World Economic Forum, Texas Instruments Incorporated is an American technology company, and representatives of the Basel Institute on Governance.

In 2013, this document was revised according to public demand, and "Principles of PACI" was published. In this case, 6 key principles of the implementation of the "compliance-control" system for business-oriented companies were included in the document.

- 1. Tone at the top** - demonstrating to the team, as a personal example, the leadership of the organization's leadership in relation to cooperation.
- 2. Zero tolerance to corruption** - formation of a culture of "0 (zero)" level of tolerance to corruption.
- 3. Transparency** - ensuring open and transparent organization of activities.
- 4. Compliance** - to ensure that the organization's activities comply with the law at the maximum level.

**5. Counterparty** - establishing a relationship with a business partner who is highly ethical and adheres to the principles of cooperation.

**6. Support and encourage regular copulation initiative.**

This principle mentioned above serves to determine the factor, caballap, which is the result of co-optation, but also the cause of co-optation.

The document "Compliance and the compliance function in banks The Basel Committee on Banking Supervision adopted in the 2005 appeal of the Basel Committee" (in a new version) is another document that will implement the "Compliance-supervision" system.

The recommendation applies to the activities of banks and credit organizations, and it is aimed at reducing the risk of corruption, preventing corruption violations, and organizing the company's activities in accordance with established rules and regulations.

The Basel Committee on Banking Supervision identifies the main directions of the "compliance risk management" service within the framework of its activity, determining the key areas of its competence: adherence to laws, internal regulations, compliance with ethical standards, prioritizing the exchange of benefits, ensuring equality in relations with clients, providing assistance to clients in an equitable manner, organizing the elements of community oversight in ensuring compliance, striving to legalize social income and entrepreneurship, and implementing supervision based on employees' compliance with established laws and regulations.

The Basel Committee on Banking Supervision provides several guidelines to combat corruption and money laundering in banks. We classify them into the following four main groups in a conditional manner: 1) Internal (conduct and ethical rules, conduct and ethical issues for senior personnel, conduct and ethical issues for supervisory entities, whistleblowing on integrity and corruption), 2) External (adherence to the Due diligence principle, Non-compliant jurisdiction policy, meaning the absolute policy of not tolerating, establishing an AML/CTF policy, meaning how your AML/CTF policy deals with income derived from legitimate financial activities and addressing risks of terrorism financing. It also encompasses developing and adopting policies, procedures, and management tools for identifying, reducing, and managing these risks, whistleblowing on integrity and corruption), 3) Examination (policy of investigation and execution, separate examination section in ethical issues for senior personnel is necessary), 4) Incorporating IFI standards internally (establishing a unified system for combating fraud and corruption and resisting them).

The emphasized indicators themselves also belong to special interest groups, and it is of great importance in preventing corruption in the activities of banks. For example, general principles of Compliance supervision and legality include adhering to the relevant market-conduct standards, managing conflicts of interest, combating money laundering, financing terrorism, and effectively combating corruption. These are identified by laws, regulatory documents, and self-regulatory organization standards.

The establishment of compliance units in banks, as recommended by the Basel Committee on Banking Supervision, is essential for identifying the position of the compliance oversight function within banks and for ensuring its independence. Merely assigning the responsibility of combating corruption to compliance officers is insufficient; rather, it is necessary for the bank to incorporate compliance into its corporate culture. This means clearly defining the role, rights, and responsibilities of the compliance oversight unit, as well as creating mechanisms to ensure its independence and autonomy.

The Basel Committee's 2005 document "Compliance and the compliance function in banks and securities firms" provides the following recommendations for establishing a system to combat corruption:

- a) Establishing mechanisms to ensure the independence and autonomy of the compliance oversight function, including defining its position, rights, and responsibilities within the bank's legal framework;
- b) Defining internal procedures for identifying internal conflicts of interest within the compliance oversight unit, for example, through internal audit procedures;
- c) Clarifying the conditions for implementing compliance functions by various divisions of the bank, ensuring that tasks are clearly defined by management, and aligning the performance of these functions with the objectives of the institution, as the proper functioning of tasks contributes to the integrity and independent operation of the organization;
- d) Ensuring access to necessary information for compliance officers to carry out their duties and establishing the obligation to provide employees with information related to corruption, ensuring cooperation in identifying and reporting corruption-related information;
- e) Providing the right to present evidence and report to authorities in cases of corruption without fear of retaliation;
- f) Defining the position of the compliance oversight function in reporting to authorities.

These recommendations are crucial for establishing an effective compliance framework within banks and other financial institutions, enabling them to effectively combat corruption and maintain integrity in their operations.

In general, it can be said that the rules proposed by the Basel Committee for the establishment of a "compliment-control" system, which is strict about the organizational form, the organization in the form of a branch, and the cooperation in the operation of the company, also determine its uniqueness. Because the document prescribes the full organization of the "compliance" system at the maximum level of this recommendation.

Moreover, it is necessary to emphasize at this point that the Bureau has not restricted its activities solely to organizing a seminar on "compliance in banking" and "compliance functions," as stated in the document of the Basel Committee. Its significance lies not only in the structure and content of this document but also in its advisory importance, which has been underscored.

In today's CIS member states, the bank employees are not adhering to this recommendation, aimed at curbing corruption, but instead are actively working to establish a compliance oversight system in their activities.

For example, such banks as Citibank or HSBC Holdings, which have public economic capital.

The next most important document in the fight against bribery is ISO 37001 Anti-bribery management systems.

When international expert I. Burdikova explores the content of the standard, she emphasizes the following: ISO 37001:2016 "Anti-bribery management systems" is a standard that provides guidelines for establishing effective and preventive systems for combating bribery within organizations (whether governmental, corporate, or non-profit). This standard serves as a framework for developing comprehensive anti-bribery systems and can be instrumental in providing services for the establishment of such systems. The application of this standard may not only improve the organization's image but also contribute to the participation of government, corporate, or non-profit sector stakeholders in anti-bribery activities and facilitate their involvement in combating bribery within the institutional framework.

ISO 37001:2016 is an international standard aimed at preventing corruption risks in organizational activities. It outlines the following approaches to be used in dealing with corruption:

- Receipt of bribes by employees from government, private, and non-profit sectors;
- Receipt of bribes by employees working for or on



behalf of an organization;

- Receipt of bribes by collaborators (contractors) working for or on behalf of the organization;
- Providing bribes to employees and officials related to the organization's activities;
- Providing bribes to collaborators (contractors) associated with the organization's activities;
- Situations such as giving or receiving bribes directly or indirectly (for example, bribes offered or accepted by a third party).

This standard applies to all types of organizations regardless of their form, whether governmental, private, or non-profit sectors.

The Group of the World Bank (hereinafter referred to as the Group) has, over the past

20 years or more, worked to mitigate the harmful effects of corruption in member countries and has developed institutions capable of reporting, as well as implementing policies against corruption.

The group's activities provide practical assistance in improving the situation of combating corruption, both by providing comprehensive and evolving information to both state and non-state actors, enhancing policies and practices that strengthen societal integrity. In addition, the group works with states, private sectors (banks), and civil society to develop standards and measures to combat corruption, as well as to implement them.

Our research findings indicate that grants and loans provided by the World Bank to developing countries have become essential for their economies to thrive. Therefore, it is important for the World Bank to evaluate countries in terms of their policies and strategies to combat corruption and to provide the necessary recommendations. These recommendations include:

- 1) Enhancing public knowledge about corruption through various seminars;
- 2) Developing the knowledge of public servants about corruption through various seminars, training, and promotional methods;
- 3) Installing ethical standards in the fight against corruption;
- 4) Increasing the salaries of public servants;
- 5) Reducing the turnover of staff, i.e., addressing turnover rates lower than average living standards;
- 6) Establishing a fair civil society;
- 7) Taking into account the opinions of the population as a key indicator;
- 8) Establishing transparent financial reporting;

9) Parliamentary oversight of corruption;

10) Improving public services, increasing efficiency in the private sector;

11) Enhancing accountability of public servants;

12) Eliminating bureaucratic barriers;

13) Reforming economic policies;

14) Ensuring the independence of public information sources;

15) Finally, ensuring legal integrity is also considered very important.

Apart from this, it is necessary to implement the recommendations provided in the guidelines for combating fraud and corruption in projects financed by IBRD loans and credits of the International Development Association, as well as grants, which are accounted for in the structural component of the World Bank, and credits and grants of the International Development Association.

We will cover only the part of these recommendations relevant to banks, actions to prevent corruption by borrowers include:

1) Measures to be taken to prevent fraud and corruption in sectors where the diversion of funds is possible, especially obligations imposed on the borrower to take certain actions, including mandatory reporting of certain activities relative to the lender, and the specification of financial arrangements between the borrower and the bank.

2) Obligation for the borrower to participate in anti-corruption measures in projects, ensuring that anti-corruption guidelines are provided to project staff and non-governmental/non-commercial organizations, financial intermediaries, and other participating organizations, including their staff working on the project.

**The Financial Action Task Force (FATF)** is an international intergovernmental organization formed to combat money laundering and terrorism financing. Considered as the governmental organization, FATF establishes international standards aimed at preventing the use of financial systems for illicit activities and the harm they pose to society. FATF is recognized as one of the most influential organizations capable of exerting significant influence on over 200 jurisdictions. Its recommendations primarily target crimes such as money laundering, corruption, and terrorism, aiming to prioritize the legalization of illicit funds.

FATF recommendations primarily focus on the external activities of banks and advocate for the proper seizure of national assets in a clandestine manner. We know that the legalization of revenues from criminal activities

and the financing of terrorism often occur through banks directly, and FATF has developed several standards to prevent such illicit activities. These include:

- 1) Identifying crimes related to the legalization of revenues from criminal activities,
- 2) Ensuring accountability for individuals involved in these crimes,
- 3) Conducting temporary freezes and investigations,
- 4) Ensuring compliance of national financial institutions with laws regarding financial secrecy according to FATF recommendations,
- 5) Employing due diligence principles and considerations when working with clients,
- 6) Implementing regular checks on politically exposed persons by financial institutions,
- 7) Paying special attention to any legal threats posed by new or evolving technologies that could be used in money laundering schemes,
- 8) Maintaining records of information requests from competent authorities promptly for at least five years for internal or international operations,
- 9) Providing necessary permissions for the re-examination of individual transactions if there are indications of suspicious financial activities,
- 10) Paying special attention to all complex, unusual, or non-transparent operations and reporting them promptly.

These are just a few of the guidelines set forth by FATF to combat financial crimes.

**One of the international organizations combating money laundering and corruption derived from general activities is the Wolfsberg Group**, consisting of 13 major banks (Banco Santander, Bank of America, Bank of Tokyo-Mitsubishi UFJ, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Société Générale, Standard Chartered, and UBS). Its aim is to develop financial-economic standards for combating money laundering (AML), including financial standards for banks, customer due diligence (KYC), and anti-money laundering policies (CTF). Although the organization's activities align with FATF's, it operates as an independent body within the framework of government regulation. The Wolfsberg Group serves as a collective initiative group in combating corruption outside of AML activities. It is preferable for the group to conduct its activities discreetly without publicizing them through the media.

The following actions are recommended for the implementation of the ABC - ANTI-BRIBERY AND CORRUPTION PROGRAM developed by the Wolfsberg

Group:

- 1) Establish effective leadership - appoint a person with authority, experience, and expertise to oversee senior management supervision within the framework of this program,
- 2) Assess risks, meaning to evaluate the nature, scope, and specific characteristics of corruption and bribery risks that may arise periodically within each bank,
- 3) Enhance the anti-corruption education system and raise awareness about these violations,
- 4) Establish a compliance monitoring system,
- 5) Evaluate corruption risks that may arise in interactions with bank clients,
- 6) Resolve issues of roles and responsibilities, meaning ensuring accountability in management for subjects implementing bank policies, and resolving accountability issues for lower-ranking employees who have deviated from their duties,
- 7) Strengthen the internal and external reporting system on corruption,
- 8) Improve reporting systems to law enforcement agencies about violations and ensure transparency of information,
- 9) Evaluate relationships with third-party providers (suppliers, contractors, sellers, or distributors),
- 10) Regulate gifts and business hospitality,
- 11) Clarify procurement procedures,
- 12) Regulate charity systems,
- 13) Monitor actions to prevent the misuse of funds in cases where organizations allocate money for commercial purposes,
- 14) Improve marketing compliance,
- 15) Prioritize the legalization of processes related to income acquisition and other activities.

## CONCLUSION

In summary, adherence to international standards and recommendations is crucial within the banking sector's compliance control systems. These standards establish a common framework, bolster risk management, promote transparency, and safeguard consumer interests. Despite the challenges, the benefits of adhering to these standards far outweigh the associated costs, contributing to a globally stable, transparent, and reliable banking system. As the financial landscape evolves, the significance of international standards in preserving the integrity and stability of the banking sector will only increase.

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