

# Theoretical Foundations of Implementation of Compliance Control and Internal Control in Banks

---

**Ruslan Egamov**<sup>1</sup>

<sup>1</sup> Master of Banking and Finance Academy of the Republic of Uzbekistan

---

## **Abstract:**

This in the article Proper organization of the system of combating the legalization of criminal income in commercial banks, improvement of this system will serve the development of the field of risk management of commercial banks, as a result, further increase of the confidence of the population in the country's banking system and ensuring the stability of the banking system. In this article, there is a description of research aimed at improving the internal control system for improving the activity of compliance control systems in the fight against corruption in banks.

**Keywords:** Compliance control, internal control system, suspicious operation, suspicious operation, customer due diligence, base calculation amount, money laundering, offshore area, FATF, risk.

## **Introduction**

In the countries of the world, at the end of the 20th century, many criminal groups engaged in criminal activities (drug trade, arms trade, etc.) and easily carried out financial transactions related to these activities through commercial banks, and banks had legal regulations on risk management in this area. the lack of fundamentals made it necessary to regulate this area. First, the United Nations Convention "Combating Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (Vienna, December 20, 1988) was adopted. "In 1989, the world's big seven countries (Great Britain, Germany, Italy, Canada, France, Japan and the USA) joined the FATF organization (Financial Action Task Force), an international institution dealing with the development and implementation of international standards in the field of combating money laundering. ) founded. Today, 55 countries are members of this organization. This organization first developed its first 40

recommendations in 1990 as an initiative to protect financial systems from drugs and money laundering. In October 2001, the FATF expanded its powers to include the financing of terrorist activities and terrorist organizations and adopted 9 specific recommendations to combat the financing of terrorism. The FATF recommendations were revised for the second time in 2003 and, together with special recommendations, have been adopted by more than 180 countries and are the international standard for combating money laundering. The international multi-level system of combating money laundering consists of FATF, FATF regional groups and countries. The FATF regional groups include the Asia-Pacific Group, East and Southern Africa Group, South America Group, Euro-Asia Group, Middle East and North Africa Group, Council of Europe Group, Caribbean Group, West African Intergovernmental Group, Central African Central includes groups.

### **Literature review**

It is known that money laundering harms society in various ways. Over the past few years, the international community has also been increasingly confronted with the problem of money laundering and terrorist financing, which is growing. This, in turn, weakens the trust of citizens in financial institutions in society, negatively affects the integrity of the market and threatens the stability of the financial system.

In his research, Gabriel C. Singson (2001) expressed his views on such situations that if the bank loses the trust of its customers, the bank will sooner or later fail. Growing concerns about money laundering led to the creation of the FATF (Financial Action Task Force) by the G-71 summit in Paris in 1989, which mandated the FATF to analyze money laundering and The task of proposing, determining and monitoring the measures of combating the legalization of criminal income of the countries was assigned.

International law considers money laundering to be an independent crime, although it is usually prosecuted as a joint crime (Boister, 2012). Boister has shown through his research that an ancillary feature of money laundering is the need for a "predicate" crime from which the illegal money originates, and this can be a serious crime.

Cassella (2003) argues that, as a general rule, an existing anti-money laundering regime is judged on the basis of a "retrospective" criterion, focusing on the origin of the proceeds of crime already committed.

Also, Ryder et al. (2016) described this process as typical organized crime with transnational characteristics. It covers a number of different jurisdictions with different legal standards. This situation is believed to arise from the mixing of illegal proceeds with legal money, and the transfer through the formal or informal banking systems of several countries to an unknown final beneficiary in order to hide their source or to finance terrorists, extremist or organized criminal groups.

Based on Culp's (2015) research in the field of money laundering, many regulators now suggest that anti-money laundering functions should be standardized internationally in order to better combat financial crime and bank fraud. Accordingly, the first step in this standardization process is the creation of internal working groups. However, it was stipulated that these groups should in turn separate from their organizations and maintain constant contact with groups in other banks, thereby creating a cooperative network dedicated to combating money laundering. To achieve this goal, organizations must pursue long-term goals of standardization, centralization, and optimization to combat money laundering in the most effective manner, recognizing that these goals cannot be achieved overnight and a long-term commitment to implementing anti-money laundering procedures. came to the conclusion that it requires

## Research methodology

Economic research methods were used to systematically analyze the data using a systematic approach to studying the problem.

The methodological basis of the research is formal logic, statistical and comparative analysis methods, systematization, classification and effort assessment, grouping, comparative method and content analysis, graphical interpretation methods, etc.

## Analysis and results

The history of modern compliance dates back to the beginning of the twentieth century, when the first agencies to control various sectors of the economy appeared in the United States. The concept of compliance appeared in the USA after the crisis of the 80s of the twentieth century, and later entered Europe. After the crisis, which had a very negative effect on most large and medium-sized companies, after the huge losses it caused, the top management of financial organizations realized that it is better to prevent such situations from happening again. The word "Compliance" is derived from the English word "compliance", which means control, consent, obedience. Compliance in banks can be divided into three major parts:

- internal compliance;
- regulatory compliance;
- legal compliance.

Internal compliance is the norms established by the bank's Board of Directors, to which all employees working in the bank must comply.

What is the internal control system - it is a set of organizational structure, methods and procedures aimed at complying with the requirements of legislative documents in the field of combating the legalization of criminal income.

When studying the issue of improving the internal control system, we should familiarize ourselves with the requirements of the law and legal documents adopted on the organization and regulation of this system in the banking sector of the Republic of Uzbekistan. In the Republic of Uzbekistan, the internal control system in commercial banks is regulated based on the following regulatory documents:

1. Law of the Republic of Uzbekistan "On Combating Legalization of Proceeds from Criminal Activities, Financing of Terrorism, and Financing of the Distribution of Weapons of Mass Destruction";
2. Rules of internal control "On combating the legalization of proceeds from criminal activities, the financing of terrorism and the financing of the distribution of weapons of mass destruction in commercial banks";
3. "Suspension of operations of persons included in the list of persons involved in terrorist activities or distribution of weapons of mass destruction, suspension of funds or other property without use, employment "Regulation on the procedure for allowing the use of property suspended without notice and resuming operations";
4. Regulation of the Cabinet of Ministers of the Republic of Uzbekistan "On the procedure for providing information related to the fight against the legalization of proceeds from criminal activities, the financing of terrorism and the financing of the distribution of weapons of mass destruction";
5. PF-6252 of the President of the Republic of Uzbekistan "On approval of the strategy of the

Republic of Uzbekistan for the development of the national system of combating the legalization of proceeds from criminal activities, the financing of terrorism and the financing of the proliferation of weapons of mass destruction" No. Ordinance.

What are the requirements of the international standards and our national legislation for the organizational structure of the internal control system in these above-mentioned legal documents?

Currently, requirements for the organizational structure of commercial banks of the Republic of Uzbekistan can be divided into two. It is known that in the country, banks with more than 50 percent of the state's share in the authorized capital of the bank are considered as state banks, and other banks are considered as private banks. Adoption of the head of the internal control structure in accordance with the Decree of the President of the Republic of Uzbekistan "On approval of the strategy of the Republic of Uzbekistan for the development of the national system of combating the legalization of proceeds from criminal activities, the financing of terrorism and the financing of the proliferation of weapons of mass destruction" and dismissal is carried out in coordination with the anti-corruption agency of the Republic of Uzbekistan. According to the internal control rules of commercial banks, the head of the internal control structure is accountable to the chairman of the bank's management.

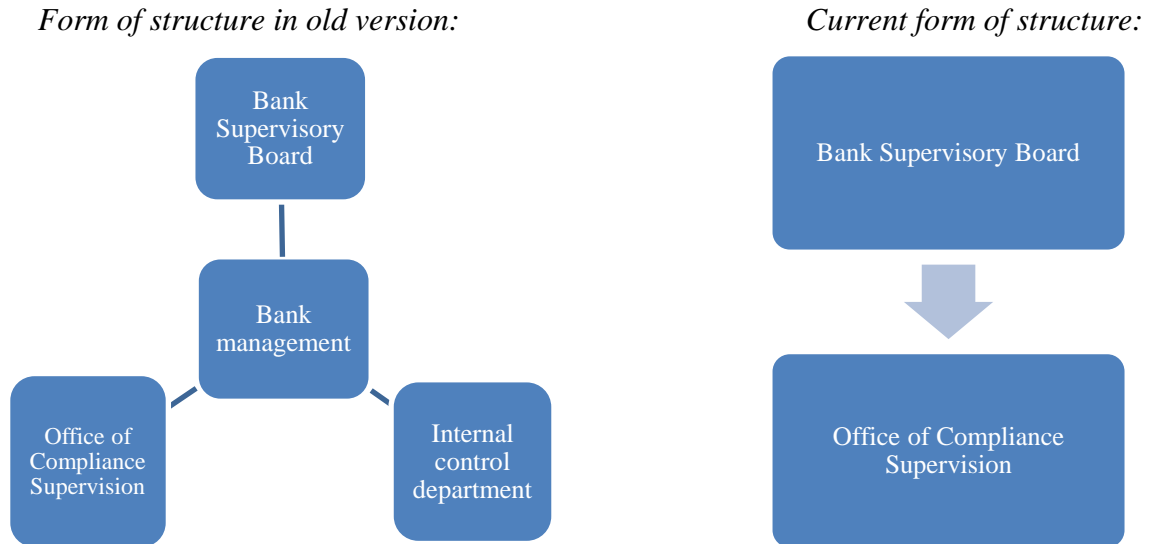
Currently, commercial banks operating in our country have different internal control structures based on the number of branches, volume of work and number of clients. For example, in some large banks, the "Internal Control Department" for combating money laundering and the "Compliance Control Department" for combating corruption and managing conflicts of interest have been separately established. Also, in some banks, based on the written assignment of the Central Bank of the Republic of Uzbekistan in June 2022, separate "Sanction Compliance" structural structures operating in the field of sanctions compliance have been established. In this case, the internal control departments are subordinated to the Bank's Management in accordance with the requirements of the Internal Control Rules. According to the requirements of the Basel Committee on Banking Supervision, the "Compliance Supervision Department" is subordinate to the Supervisory Board of the bank. Also, we can see that, based on the Central Bank's request, the "Participation Compliance" departments are subordinated to the Bank's Supervisory Board. In most of the remaining commercial banks, we can see that the "Compliance Control Department" subordinated to the Supervisory Board of the bank covering these three areas is established.

According to the 10th amendment to the Rules of internal control of commercial banks introduced on April 4, 2023, one of the members of the bank's management should be appointed to the position of head of the internal control service. That is, through this request, the Central Bank is making a request to include the heads of internal control in the composition of the bank's management. It is known that a bank is a commercial organization and its main activity is focused on earning income. But in some cases, the management of commercial banks make important decisions without taking into account the risks in the field of combating money laundering. This situation may cause banks to get involved in illegal activities such as money laundering or terrorist financing. In order to prevent these situations, the Central Bank aims to increase the importance of this system and reduce the risks in this area by including the heads of internal control in the bank management. Also, in order to reduce the influence of the bank's management on the internal control services of the Central Bank, the fact that this structure is independent from other structural structures, that the hiring and dismissal of managers and employees of these structural structures is carried out only based on the decision of the Supervisory Board of the bank, as well as the monthly salary of these employees and requirements have been established that equivalent payments should be determined only by the Supervisory Board of the bank. In addition, the requirements for the employees of the internal control unit include the fact that the head of the unit must have a higher economic or legal education and at least two years of managerial experience, or at least one year of work experience in the

Internal Control Service. it is established that the following persons cannot be appointed to the position of head or employee of the bank (including employees of the internal control service at bank branches):

- persons who, in their activities and personal behavior, have shown that they mismanaged the entrusted department or did not conduct the work in good faith;
- persons who were previously held criminally liable by the court for crimes in the field of economy.

Based on the requirements of the legislation and the Central Bank, below we can see the changes introduced in the improvement of the internal control system in "Hayot Bank" JSC, one of the objects selected for the study.



**Figure 1. Internal control system submission form of "Hayat Bank" JSC<sup>1</sup>.**

**Methodological requirements in the field of combating the legalization of criminal income.**

According to the Internal Control Rules, all commercial banks must develop their own internal control Rules in this area and approve them by the bank's supervisory board. The requirements to be included in these internal control rules are clearly defined in the Internal Control Rules, and the central bank has given commercial banks the right to include additional requirements in these Internal Control Rules based on their own risk. For example, commercial banks have the right to include additional criteria in their internal control rules for the categories of customers with a high level of risk, to include additional criteria for suspicious or suspicious transactions.

consist mainly of the implementation of the requirements of internal regulatory documents developed by banks in the field of internal control. This procedure includes due diligence of customers, responding to requests from a specially authorized state body, identifying suspicious and suspicious transactions and submitting them to a specially authorized state body, comparing the participants of the operation with the List, training employees, improving the skills of internal control service employees., regulates the implementation of data confidentiality and storage, customer risk assessment and other requirements.

**Conclusion**

In addition to the conclusion and the above suggestions, commercial banks should continuously provide the structures of the internal control service with sufficient resources, pay enough attention

<sup>1</sup>It was compiled based on the information obtained from Hayotbank.uz.

to the continuous training of employees, cooperate with the competent state body in the field of legalization of criminal proceeds, the Central Bank and other commercial banks. it will be appropriate for them to cooperate on a regular basis.

Also, in order to more effectively combat the legalization of criminal income and financial crimes, the Department of Combating Economic Crimes under the Central Bank and the General Prosecutor's Office should also assist commercial banks in forming a list of suspicious enterprises engaged in such illegal activities.

Proposals to combat money laundering typically come from international organizations, regulatory bodies, government agencies, and industry groups. There are proposals and several new international recommendations that are popular in combating money laundering. Including:

1. Your client know (KYC) method: Customers identification check their risk level evaluation and suspected monitoring activities for strong KYC methods in practice to apply ie of the organization business direction (the 1st line of defense of the organization calculated) in representatives this method according to seminar on the concept and tests using formation
2. The client must level study (Customer Due Diligence – CDD): To customers relatively complete CDD done increase, that's it including legal of individuals founders and beneficiary owners about information updated to go and their activity basically at the beginning legal persons with which begins business of relations features from monitoring passing to go
3. Monitoring of transactions: Laundering of criminal proceeds or terrorism financing to show possible has been unusual or suspicious actions to determine real time for mode or transactions retrospective (client by done increased transactions to the algorithm based on without) monitoring systems installation. And this own in turn, measures customers, products, services and geographical locations risk level customized without algorithms work on the way out help gives
4. Employees study and Appeals: Fight against legalization of personal income to employees according to legislation, risks and work activities during face coming possible has been them suspected practices about constant teaching take go to them suspicious and suspicious activities to determine and own in time message to do preparation;
5. International sanctions Screening on: Clients and transactions international sanctions lists according to inspection, sanction restrictions current done individuals, organizations and countries with business connections installation prevention get and this terrorism financing and j to legalize illegal income risk level in reduction service does;
6. The client reinforced must level study (Enhanced Due Diligence): political to the title have people official persons (PEP) or high risky in places from the register past customers for reinforced must level learning (YEDD) measures to see

Technological Solutions: Technology to combat money laundering solutions investment to do, including automated transaction monitoring systems, information analytics tools and artificial intellect and others

## References

1. Singson, Gabriel C. (2001) “Bank depozitlarining maxfiylikiga oid qonun va huquqshunoslik.” Ateneo Law Jurnal, 46.
2. Boister, N. (2012) Transnatsional jinoiy huquqga kirish. Oxford: Oxford Universiteti Nashriyoti.
3. Cassella, S.D. (2003) Tez pul yuvish (Jinoiy daromadlarni legallashtirishga). JDLni boshqarish

jurnali 7: 92-4.

4. Rider, B., Alexander, K., Bazley, S. va Bryant, J. (2016) *Bozorni suiiste'mol qilish va Ichki savdo*. Haywards Heath, G'arbiy Sasseks: Bloomsbury Nashriyoti.
5. Culp, S. (2015). Banklarga moliyaviy jinoylar bilan kurashish uchun kuchli, standartlashtirilgan pul yuvish (jinoiy daromadlarni legallashtirishga qarshi kurashish) dasturlariga ehtiyoj bor. <https://www.forbes.com/sites/steveculp/2015/12/07/banks-need-strong-standardized-anti-money-laundering-programs-to-fight-financial-crime/#249b2ab17a5e>.
6. Мамадияров, З. Т. (2021). Банкларни трансформация қилиш шароитида масофавий банк хизматлари билан боғлиқ рискларни бошқариш. *Экономика и финансы (Узбекистан)*, (5 (141)), 12-21.
7. Mamadiyarov, Z. (2020). А ТИЖОРАТ БАНКЛАРИДА МУАММОЛИ КРЕДИТЛАРНИНГ ВУЖУДГА КЕЛИШ САБАБЛАРИ ВА УЛАРНИ КАМАЙТИРИШ ЙЎЛЛАРИ. Архив научных исследований, (26).
8. Mamadiyarov, Z., & Karimov, K. (2024). Tijorat banklarida kredit riski va uni boshqarish usullari. *Страховой рынок Узбекистана*, 1(6), 57-60.
9. Mamadiyarov, Z.T., Sultanova, N.I., Khamdamov, S. J. R., & Makhmudov, S.B. (2024). Analyzing the Impact of International Financial Reporting Standards (IFRS) on Microfinance Services. In *Development of International Entrepreneurship Based on Corporate Accounting and Reporting According to IFRS* (Vol. 33, pp. 39-47). Emerald Publishing Limited.