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BASIC PRINCIPLES OF ORGANISATION OF AN EFFECTIVE COMPLIANCE CONTROL SYSTEM AND ISSUES WITH THEIR IMPLEMENTATION IN BANKS OF UKRAINE

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Abstract: *The article research is focused on main issues with establishment and practical application of a compliance system in domestic banks. According to the «three lines of defense» model, a role and place of a compliance division within a banking institution were determined and basic requirements that should be taken into account while organising functioning of the division were defined. The essence and causes of compliance risks were analysed and criteria for evaluation of effectiveness of the compliance system in a bank were developed.*

Keywords: *compliance, bank, banking supervision, banking system, compliance risks, compliance activity, compliance control.*

Given a crisis the banking system of Ukraine being in the recent years, development of basic principles of organisation of an effective compliance-control system becomes of particular importance. The essence of “compliance” in banking is examined by researchers as two main elements: the element of corporate governance in a bank or an internal control tool. Compliance function envisages that the bank complies with any set of requirements, while a compliance risk refers to the risk of legal sanctions, financial losses or loss of reputation due to failure to comply with such requirements.

When developing the effective compliance system, you need to consider an organisational form in which a compliance division is functioning, as well as resources required for compliance-control (human resources, assets, opportunities for employees’ learning and development, processes automation).

The most effective model of organisation of the compliance function in the bank is the model

of «three lines of defense», which envisages that compliance control is implemented:

On the 1st line of defense: divisions that own and manage compliance risks, as well as carry out initial supervision and control over them in frame of processes or operations of the bank;

On the 2nd line of defense: a separate compliance division, which ensures further detection, measurement, monitoring and reporting of the compliance risk at all levels of the bank’s activities;

On the 3rd line of defense: an internal audit division that verifies and evaluates effectiveness of compliance function.

Implementation of the effective compliance system allows management bodies of banks to receive consulting and reporting necessary to take management decisions and reduce risks of losses and enforcement actions for breaking imposed requirements, as well as increase the level of public trust to the domestic banking system.

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