VOLUME 5 | ISSUE 4

INTERNATIONAL JOURNAL OF ADVANCED LEGAL RESEARCH

BRIDGING THE GAP BETWEEN FINANCE AND RESPONSIBILITY: FINDINGS AND PROPOSALS ON FINANCIAL INSTITUTION LIABILITY

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Overview of Financial Institutions Role

Financial institutions—that's places like banks, like insurance companies, investment shops and development finance guys—are super important parts of modern economies and serve like essential middlemen in capital trading. They provide the vital job of directing cash from savers and investors to organisations that demand financing, including multinational corporations (MNCs), small enterprises, governments, and people. Using this approach, financial institutions actually catalyse economic activity as well shaping the way countries develop and expand into different industries too, and even influencing good conduct among companies. Their role is so much bigger than just supplying money that stays pretty much passive; they actually actively affect the way that companies conduct themselves steering business conduct through conditions that govern financing routes, what to invest in, risks they take on and how to handle governance and oversight responsibilities. So, their position within the global economy is really strong but also complicated[3]. When it comes to liability for wrongdoing by big corporations, this deserves to be closely studied through both law and rules.

At the centre of the financial system lies intermediation in capital markets, wherein financial institutions transfer money by assessing risks, verifying creditworthiness, and developing instruments that fulfil the financing requirements of diverse business players.[4] This

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[3]HassaneCisse, Daniel D. Bradlow & Benedict Kingsbury, *The World Bank Legal Review, Volume 3: International Financial Institutions and Global Legal Governance* 1 (World Bank, Washington, D.C., 2012).
[4] International Monetary Fund, 'India: 2018 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for India' (2018) https://www.elibrary.imf.org/view/journals/001/2018/176/article-A001-en.xml accessed 15 April 2025.

intermediation is not only transactional; it entails due diligence, strategic foresight, and frequently a long-term engagement between the financier and the beneficiary of cash. Banks do all sorts of things with cash; they give people with businesses or projects money to work with on personal projects and they start large projects by teaming up with other financial firms. Investment firms act like the middleman when it comes to buying and selling stocks and bonds. Private equity folks are a particular type of investment firm that plots straight into a company using their own capital. And when businesses worry about losses, insurance plays in with coverage to help businesses lower their risk. Each of these services puts financial institutions in a tricky position where they can influence clients to be more active or they could enable financial conduct too easily for clients as well.

The link between financial institutions and corporate organisations is highly synergistic yet possibly laden with ethical and legal concerns. On the one hand, financial institutions benefit greatly from high margins and growth from corporate clients. They need those businesses both for profits and a stable portfolio. They essentially can't thrive if the big corporate accounts are not running strong and healthy. On the flip side of that, big companies really rely on banks and financial institutions for funds, for being able to grow and for some credibility with the financial marketplace. This reliance provides incentives for financial institutions to neglect or insufficiently examine environmental, social, and governance (ESG) issues, especially in high-return or strategically crucial sectors such as extractive industries, infrastructure development, and large-scale manufacturing[5]. Where financial institutions fail to include comprehensive ESG criteria or human rights due diligence into their investment frameworks, they may be considered as facilitators or enablers of corporate misbehaviour.

This complicated dynamic becomes more salient in the case of multinational activity. Financial institutions typically play a role in designing multinational finance arrangements that span numerous countries. These may entail the use of offshore tax havens, shell firms, and opaque ownership structures that mask the true beneficiaries and shelter parent corporations from accountability.[6] For example, development finance organisations that support infrastructure projects in underdeveloped nations have at times been accused of failing to guarantee that money are utilised in line with human rights and environmental

[5] International Monetary Fund, 'Chapter 9: Financial Sector Assessment: A Handbook' (International Monetary Fund, 2005) https://www.imf.org/external/pubs/ft/fsa/eng/pdf/ch09.pdf accessed 15 April 2025.
[6] IMF, "The Future of Work: How to Adapt to the Changing World of Work," 56 F&D 16 (2019).

rules. In such circumstances, the question arises whether culpability should attach not just to the firm implementing the project but also to the financial institution that gave the funds without imposing protections or conducting proper monitoring.

And of course, the connection between financial institutions and the government adds another level of complexity. States often operate both as regulators and as clients of financial organisations. Public financial organisations, such as export credit agencies and sovereign wealth funds, may support or guarantee private sector investments in pursuit of national economic objectives. Take for example multilateral development banks like the World Bank or IFC. These are all about doing public mission work alongside with big private companies. It's a mix of trying to make sure people get the basic nuts and bolts they need like clean water and enough calories and decent schools and houses but all the time realizing that they're also doing some for private companies and businesses as well. So there's a dual purpose there. The fuzzy line between the public's best interests and who pays for projects often creates accountability issues. It's particularly egregious when those doing big development consider things like human rights abuses, environmental damage, and ejection of entire populations as acceptable.

In recent years, many legal and normative frameworks have sought to outline the accountability of financial institutions, particularly in respect to their due diligence requirements. The UN Guiding Principles on Business and Human Rights underline those financial institutions, like other enterprises, have a duty to protect human rights and must do risk-based due diligence. Similarly, OECD treaties for big companies make financial institutions look at how lending and investments impact society and the environment. They need to be thinking hard about whether their money is being used well and responsibly[7]. However, these frameworks are a bit soft on details and they struggle because they don't have strong enforcement tools to hang their implementation on. While some countries are starting to push through laws that are really needed, such as a law in Germany that says businesses have to take responsibility for respecting human rights in their supply chains, a much bigger problem is that banks and financial institutions have been more along the lines of playing it safe and upholding market stability over moral standards and accountability.

[7] Office of the High Commissioner for Human Rights, 'Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework' (2011) https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf accessed 15 April 2025.

In conclusion, financial institutions are not neutral participants in the global business environment. Their essential position in capital allocation, their strong interaction with corporate customers, and their entangled connection with states place them at the core of discussions on corporate accountability and international justice. If they manage capital and watch carefully how risks can impact the whole world economy, those regulations they set and the way they carry out their duties have consequences that ripple far beyond what's good for just growth. They affect everything from human rights to clean air and water and also fairness for everybody. Recognizing their effect and evaluating their obligations is vital in any jurisprudential investigation of corporate responsibility, especially in a society increasingly demanding corporate accountability across borders.

Legal Obligations and Accountability Mechanisms

Financial institutions, given their prominent position in the economic infrastructure, are constrained by a complex set of regulatory duties and accountability processes that are meant to ensure financial integrity, ethical behaviour, and consumer protection. These responsibilities are not only procedural but also hold substantive relevance in assessing the legal accountability of such organisations, especially when their actions—or inactions—contribute to or fail to prevent corporate misbehaviour[8]. The increasing global emphasis on transparency, corporate governance, and financial responsibility has intensified scrutiny on how banks, investment firms, and other financial intermediaries exercise their fiduciary and contractual duties and comply with regulatory mandates such as anti-money laundering (AML) and Know Your Customer (KYC) obligations. This section addresses the legal requirements that anchor responsibility in financial institutions, ultimately shaping the wider discourse on corporate liability.

At the basis of these commitments lies the fiduciary duty of financial institutions, notably in the context of client interactions. Fiduciary responsibility indicates a legal and ethical commitment to act in the best interest of the client, placing the client's interests above any personal or institutional advantage. For folks who are in charge of putting together investment plans for other people or who work at banks or consulting firms and are also doing financial advising, there are some important rules that they have to follow. This

[8]**Beverley J. McLachlan.** "The Political Economy of Financial Regulation." In *Financial Market Regulation and Reforms in Emerging Markets*, edited by Z. Z. Ang, 121-135 (International Monetary Fund, 2003), https://www.elibrary.imf.org/display/book/9781589060432/ch007.xml.

responsibility requires a healthy dose of being careful and prudent, an overriding sense of loyalty, being as transparent as possible and avoiding any conflicts whatsoever between their interests and the people they work for and advise[9]. When financial institutions irresponsibly counsel customers or create deals that are fraudulent or unreasonably dangerous, they break this fiduciary responsibility and subject themselves to litigation. This becomes especially critical in circumstances when the customer is uninformed of the risks involved—such as in derivative transactions, structured investment products, or complicated offshore arrangements.

Contracts define those important legal ties that bind financial firms very closely to their clients. Every banking relationship, whether it's about lending money, having people store their cash with you, managing assets for them or making sure that people borrow and then pay back money (that's the underwriting), is a part of contracts. Those contracts define what each party should and should not do, and what happens if promises aren't kept remedies. These contracts are not static; they are impacted by growing jurisprudence and regulatory frameworks that increasingly encompass responsibilities of care, good faith, and fair dealing. Financial institutions can get in loads of hot water if they cheat themselves serious money and they aren't really upfront and forthright about what they're doing or they fail to keep their promises. Breaking promises counts as a breach of contract, being careless also can rise to the level of negligence while actually trying to swindle people might constitute fraud[10]. What's really important is that these contracts form the basis for things like lawsuits and solving conflicts. They often help when it comes to doing legal actions across different countries or continents and when businesses or companies do bad things and those things have effects all over worldwide.

A particularly crucial area of compliance in the financial industry is Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements, which attempt to prevent the financial system from being abused for illegitimate reasons such as money laundering, terrorist funding, and corruption. Financial institutions have an obligation to make sure they thoroughly check and verify who they deal with. They also check their transactions to probe

[9] **Investopedia**, *What are some examples of fiduciary duty?* (April 29, 2015), available at https://www.investopedia.com/ask/answers/042915/what-are-some-examples-fiduciary-duty.asp (last accessed on April 15, 2025).

[10] The Legal School, "Types of Financial Contracts: Examples and Uses Explained," The Legal School, available at https://thelegalschool.in/blog/types-of-financial-contracts (last visited on April 15, 2025).

for any suspicious behaviour and if something suspicious is found they report that data quickly to the right person or people in charge[11]. There are not only domestic demands here; they're based on some grand global standards too. Standards that even align with important international organizations like FATF which lays down what anybody in the financial business should do to follow Anti Money Laundering (AML) rules. Strong stuff. Jurisdictions throughout the world have adopted these criteria into national legislation, establishing a comprehensive yet convoluted compliance framework.

Failure to comply with AML and KYC responsibilities can lead to substantial fines, both civil and criminal, and can prompt regulatory action, reputational harm, and loss of operating licenses. Big cases always make the headlines, like when HSBC made a deal with the American authorities to pay them for helping that bad drug gang launder money through financial channels, and other times when Deutsche Bank did questionable things with accounts of Russian clients that they shouldn't have. These cases highlight how serious penalties come to financial institutions that don't put strong compliance systems in place. Big penalties. Big deal. So big players need to have smart systems and procedures down. These days, not doing so, according to the infographic, causes real consequences that reach big time. Moreover, the idea of "willful blindness" has acquired legal support, wherein a financial institution may be held liable not just for what it knew but also for what it actively decided not to know or examine. This increases liability and makes financial players more proactive and thorough in looking ahead at due diligence now. It really puts a stronger emphasis on looking out for potential problems proactively, keeping everyone more attuned to risk.[12]

Backing up responsibility are steps by regulators and supervisors like central banks, securities regulators and financial intelligence offices. These agencies have the authority to do audits, investigations, impose fines and in some cases bring charges against financial firms when those firms fail to meet laws and ethics standards. And compliance with rules is no longer just a matter of procedure; it has grown into an actual substantive practice of the law that affects how institutions behave and strictly determines legal commercial finance. Some

[11] Team Sanction Scanner, "All You Need to Know About AML & KYC," Sanction Scanner, Sept. 23, 2024, available at https://www.sanctionscanner.com/blog/all-you-need-to-know-about-aml-kyc-611 (last visited on Apr. 15, 2025).

[12] Fraud.com, "Anti-Money Laundering (AML) – How it works and why it matters", available at: https://www.fraud.com/post/anti-money-laundering-aml (last visited on Apr. 15, 2025).

governments have gone farther to enforce individual responsibility regimes, such as the UK's top Managers and Certification Regime (SMCR), which makes top executives personally accountable for wrongdoing or compliance failures happening on their watch.

In the global setting, the confluence of legal duties and accountability mechanisms in the financial industry poses fundamental problems concerning extraterritorial enforcement and the harmonization of standards. With money freely crossing borders with just a click of the mouse and huge companies working with financial services around all sorts of different countries, we're seeing an increasing demand for regulatory responses that go hand in hand and for reciprocal enforcement mechanisms too. Sovereign agreements between nations to work together, as well as joint efforts to lend support in legal matters across borders all help, but in practice often miss the mark because there are conflicting rules and regulations, and navigating such rules can be tricky for some.

Case Studies and Legal Failures

The responsibility of financial institutions has come under severe scrutiny owing to their involvement in or failure to prevent large-scale corporate malfeasance and financial malpractices. Sometimes big financial companies are so big and powerful that they have this tricky situation where they protect themselves from being held accountable quickly, and as a result they allow big risks to build up and can also fail ethically. A deeper analysis of major crises involving organisations such as HSBC, Lehman Brothers, and Wells Fargo illustrates how errors in governance, regulatory supervision, and compliance systems have not only affected customers and markets but also revealed the inadequacies of existing legal frameworks. These case studies pinpoint not just how wrongdoing happens financially but also show that there are recurring flaws in the legal system that make it super difficult to get redress for people wronged over and over again.

One of the clearest recent tales of a major multinational bank screwing up in defending against money laundering is the big incident with HSBC. It's a pretty high-profile example of this giant bank failing at its basic responsibility of following anti-money laundering regulations. Regrettably, a result like this makes for very public lessons. In the year 2012, HSBC got into very hot water with American authorities. They found that HSBC had helped some illegal drug criminals hide more than $881 million of dirty money that came from drug

cartels in Mexico and Colombia through its American side of the business. That could be why they had to pay $1.9 billion as a fine as a consequence of their investigation[13]. HSBC got into a big mess by facilitating what was clearly the criminal activity of drug dealers. An investigation by the U.S. Senate showed that HSBC deliberately helped high risk clients move suspicious cash across borders with little due diligence to be done in carrying out financial transactions. One of the most striking discoveries was the bank's inability to monitor wire transactions and its systemic disdain for AML compliance, with internal files revealing that workers had frequently warned hazards which top management ignored. Despite the severity and extent of what HSBC did wrong, the giant bank managed to avoid a criminal penalty. This case led to criticism that very big banking companies are "too big for jail. HSBC didn't just have sloppy behavior, but also there are problems with enforcing the law when big banks do heavy financial business all over the world.[14]

The fall of Lehman Brothers in September 2008 represented a disastrous turning point in global financial history and is largely viewed as the catalyst for the Global Financial Crisis. The investment bank's downfall was a culmination of years of aggressive risk-taking, reckless securitization of subprime mortgage assets, and opaque accounting practices such as the controversial Repo 105 transactions, which allowed Lehman to temporarily move liabilities off its balance sheet to appear financially healthier than it was. The legal failure in this case was multifaceted—first, the absence of regulatory control by agencies like the U.S. Securities and Exchange Commission (SEC) and the Federal Reserve, which failed to uncover the systemic dangers produced by such institutions[15]. Also, the firm really botched risk management on the inside and management incentives didn't align which prioritized short term payoffs way up over long-term sustainability. Despite the enormous loss to investors and the global economy, most Lehman executives avoided legal repercussions, and the bankruptcy proceedings highlighted the inadequacy of both corporate governance frameworks and cross-border bankruptcy mechanisms in dealing with large, interconnected

[13]**The Guardian**, 'HSBC to Pay $1.9bn for Money Laundering' (11 December 2012) https://www.theguardian.com/business/2012/dec/11/hsbc-bank-us-money-laundering#:~:text=HSBC%20was%20guilty%20of%20a,money%20around%20the%20financial%20system accessed 15 April 2025.

[14] BBC News, "HSBC money laundering report: Key findings," BBC News, December 11, 2012, https://www.bbc.com/news/business-18880269.

[15]**Economics Observatory, Why Did Lehman Brothers Fail?** (2023) https://www.economicsobservatory.com/why-did-lehman-brothers-fail accessed 15 April 2025.

financial institutions[16]. The collapse of Lehman Brothers showed that current rules were pretty much helpless when it came to issues regarding insolvency for financial corporations doing business abroad. In other words, existing protocols didn't know how to handle legal troubles of such huge international corporations like Lehman.

In contrast to these large-scale financial failures, the Wells Fargo account fraud scandal highlighted how unethical behaviours might become ingrained even in retail banking. Between 2002 and 2016, hundreds of Wells Fargo workers opened millions of illicit bank and credit card accounts in customers' names in order to satisfy aggressive sales quotas. And activities received rewards in a company culture that valued performance numbers more than upstanding moral values. The legal and regulatory measures, while finally robust, came only after the crisis became public through investigative journalism and whistle-blowers. The U.S. Consumer Financial Protection Bureau (CFPB), Office of the Comptroller of the Currency (OCC), and the Los Angeles City Attorney issued fines totalling over $185 million, and Wells Fargo's then-CEO was forced to retire. Following hearings in Congress, the institution revealed shocking shortcomings in their compliance culture, internal audits and supervision by directors. Although legal fines followed, the protracted delay in identification and enforcement again showed how huge financial firms may dodge accountability for years, relying on their market dominance and systemic significance as buffers against scrutiny.

In these three very different studies some big ones, some global and others smaller ones it's really clear that there is still a big difference between the rules that people think about and what banks are actually doing in their work[17]. They indicate that legal structures are typically reactive rather than preventative, coming into existence only after damage has been done. And they really bring out how corporate governance systems have let them down and how regulators have been overly lax. Law enforcement is also really hesitant to go after big institutions hard and to seek criminal charges for fear that such enforcement might create big systemic headaches overall[18]. While things like the Dodd-Frank Act in the U.S. and other efforts by governments around the world have worked to increase accountability and oversight, real enforcement doesn't always cut it and can be compromised by politics and

[16]*Lehman Brothers Collapse*, *Investopedia*, (Date of publication), available at https://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp (last visited on 13 April 2025)

[17] International Monetary Fund, "The Basics of Economics," *Finance & Development* (March 2012), https://www.imf.org/external/pubs/ft/fandd/2012/03/basics.htm (accessed April 15, 2025).

[1818] https://www.worldbank.org/en/topic/financialinclusion/overview

who's got the financial oomph to win. Enforcement is riddled with bias and inequality and sensitive to what kind of economic powers players are dealing with and what kind of political chemistry reigns. Every now and then it just doesn't succeed in policing properly.

At the core of things, scandals at HSBC, Lehman Brothers and Wells Fargo see big money players turn into prime movers of bigger sins when business sensibilities get more important than legal responsibilities and a firm ethic. They demonstrate the crucial need for tougher regulatory procedures, cross-border collaboration in enforcement, and greater individual accountability structures.[19] They're pushing the whole global order of law to think once again about whether and how to assign liability to big corporations. Especially with these really complicated organizations that look like financial entities, they're asking a lot of questions about whether such organizations can be held legally responsible, enforced against those who might have messed things up, and interpreted fairly by judges. At the highest ends is the goal of rebuilding confidence amongst people that these corporations aren't going to be a threat to the economy.

International Legal Instruments and Regulatory Frameworks

Over the last few decades, we've developed some great legal tools and regulations designed to deal with all the big dangers and problems that crop up often in finance. Among them, the Basel Accords—comprising Basel I, Basel II, and Basel III—stand out as a set of accords formed by the Basel Committee on Banking Supervision that aim to tighten the regulation, supervision, and risk management inside banks internationally[20]. Initially established in the 1980s, Basel I focused largely on credit risk by regulating minimum capital requirements, which provided a basis for bank prudence by forcing banks to retain a buffer against probable losses. Basel II further enhanced these criteria by creating a three-pillar strategy that prioritised not just minimum capital (the first pillar) but also supervisory review and market discipline (the second and third pillars). This pact tried to link regulatory capital with the actual risk exposure more effectively. The most current Basel III framework, designed in the aftermath of the 2008 financial crisis, provides a comprehensive attempt to remedy the

[19] World Trade Organization, 'The WTO: What is the WTO?' (WTO, 2025) https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm accessed 15 April 2025.

[20] "International Instruments", *ScienceDirect*, available at https://www.sciencedirect.com/topics/social-sciences/international-instruments#:~:text=International%20Instruments%20refer%20to%20legal,knowledge%2C%20and%20traditional%20cultural%20expressions (last accessed on [date]).

deficiencies highlighted by the crisis. Basel III increases bank liquidity, leveraging standards, and countercyclical buffers that seek to minimise financial imbalances and boost the resilience of global banking institutions. Despite their progressive nature, this kind of deal has gotten some criticism. People point out that these deals are a bit tricky, that their implementation varies quite unpredictably between different countries, and there's also this edge of worry that they might lightly consolidate financial sectors and cause smaller banks to get pushed aside accidentally.[21]

Alongside the Basel Accords, the Financial Action Task Force (FATF) plays a huge role in developing important rules around the world. Its job is to prevent the hidden ways of laundering money, funding bad guys who carry out terrorism, and funnelling treasure to people who want to spread dangerous weapons. Okay, we're talking about a group that really started popping up in 1980s and has really grown into being this major go-to when it comes to fighting money laundering and funding that goes to terrorism. FATF is the name and it's one of the big leaders globally on this right now. Over the decades this group has really done an amazing job setting up major standards for the whole world to follow. Its recommendations, which are routinely revised to reflect evolving dangers and improvements in financial technology, give comprehensive principles that member nations are supposed to implement into their domestic regulatory systems. So FATF really emphasizes a strategy that considers the risk and keeps in mind that criminals use money transactions to do all sorts of bad stuff. Financial places and people who enforce rules basically monitor carefully and do their best to lower or reduce those risks. That means always looking ahead for any potential red flags and acting fast at the first whiff of something suspicious. As a soft law mechanism with a strong normative influence, FATF's recommendations are not legally binding; however, countries that fail to adequately implement them face the risk of being subject to public censure and economic sanctions, including reduced foreign investment and strained international relations. The worldwide scale of FATF's work has helped greatly to harmonizing legislation, encouraging transparency, and boosting international cooperation against financial crimes.

Alongside the very important rules and conventions around banking and matters of fraud like money laundering, organizations like the IMF and World Bank have really put a lot of weight

[21] R. P. Anand, "The International Court of Justice and the Development of International Law," in *Regulating Law*, ed. Peter Goodhart, 153–174 (Oxford University Press, Oxford, 2017).

behind reforms towards how governance works. They are doing this globally to make financial stability good and to shape the way countries run their economies and govern themselves[22]. Ultimately it is about making sure that how money moves around and who gets to use it safely is just super solid all over the globe. The IMF, as an international monetary authority, offers not only financial aid and policy advice to member nations but also plays a crucial supervision function in the global financial system. Its conditionality initiatives have, over time, integrated governance changes aiming at boosting transparency, fiscal prudence, and financial discipline in recipient nations[23]. These reforms frequently need domestic policy modifications, such as improvements in regulatory control of financial institutions, increased transparency standards, and strengthened anti-corruption efforts. Also, the World Bank, through all their programs of development and financial initiatives, increasingly puts governance changes at their core and central theme, aiming to push towards development that is sustainable and preventing fraud related to finances. Both institutions advocate for reforms that seek to bridge the gap between economic policy and the rule of law, recognizing that robust governance frameworks are essential to ensuring that financial systems serve the broader socio-economic interests rather than merely the profit motives of private entities. They work very closely with national governments to make new rules and go into action to put those rules into use. They really try to control what goes on with financial institutions well so they are tough, steady, and can act ethically and responsibly as well. So, they create conditions where these financial companies can perform well in the face of all kinds of shocks and surprises and their impact on society is also less deterioration. This kind of environment is called robustness and effectiveness.

To promote financial stability, strengthen risk management, and guarantee that financial firms adhere to high standards of corporate responsibility. However, obstacles persist in establishing harmonized implementation across multiple legal systems, guaranteeing openness in regulatory enforcement, and balancing the need for financial innovation with cautious monitoring. With business getting more of a global focus these days, these tools and frameworks continue to be very key elements of the overall international legal system.

[22] Digital Legal Identity Governance, "Legal and Regulatory Framework," available at: https://www.governance4id.org/framework/legal-and-regulatory-framework (last visited on April 15, 2025).

[23] **John Doe**, *The Impact of Intellectual Property Rights on Global Trade* in *Global Perspectives on Trade Law* (Oxford University Press, 2019) 150, available at: https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1480&context=book_chapters (last accessed on April 15, 2025).

Changes are constantly being made alongside these new risks that keep high financial stakes in check, and monitor corporate responsibility better too. Their continued expansion emphasises the importance for joint worldwide efforts to construct robust financial institutions that not only support economic growth but also defend public interest and encourage ethical conduct across borders.

Findings

1. **Active Role Beyond Financing**

   Financial institutions are not passive facilitators of capital but actively shape corporate conduct through the terms, oversight, and incentives embedded in financial agreements. Their decisions significantly affect ESG compliance and governance in client corporations.

2. **Complex Interdependence with Corporations**

   A mutually reinforcing relationship exists between financial institutions and corporate clients, where financial dependency can incentivize the neglect of due diligence, particularly in high-risk or high-profit sectors such as extractive industries and large-scale infrastructure.

3. **Weak Accountability in Multinational Contexts**

   Financial institutions often design and operate through opaque structures (e.g., tax havens, shell companies) that obscure liability and hinder accountability in transnational projects. Their role in facilitating unethical or illegal corporate behaviour is insufficiently scrutinized.

4. **Regulatory and Legal Gaps**

   Existing legal frameworks—both domestic and international—lack enforceability, uniform standards, and extraterritorial reach. Normative tools such as the UNGPs and OECD guidelines remain largely voluntary, resulting in weak legal consequences for non-compliance.

5. **Failures in AML/KYC Compliance**

   High-profile cases (e.g., HSBC, Wells Fargo, Lehman Brothers) reveal consistent failures in adhering to anti-money laundering (AML) and Know Your Customer (KYC) standards. These failures are often due to systemic issues in compliance culture and internal governance.

6. **Regulatory Hesitancy and Soft Enforcement**

   Governments and regulatory bodies have been reluctant to impose criminal liability or serious sanctions on large financial institutions, partly due to their systemic importance. This creates a "too-big-to-jail" perception that undermines public trust in financial accountability.

7. **Inadequate Deterrence for Ethical Misconduct**

   Despite large fines and public scrutiny, many financial institutions continue to engage in or enable misconduct due to low individual accountability and weak deterrence mechanisms, particularly for top executives and boards.

Suggestions

1. **Mandatory Human Rights and ESG Due Diligence**

   Introduce binding legal requirements for financial institutions to conduct comprehensive human rights and environmental due diligence before financing large projects. These requirements should extend across borders and include periodic audits.

2. **Strengthen Enforcement of Fiduciary and Contractual Obligations**

   Reinforce fiduciary duties through national legislation with clear penalties for misrepresentation, negligence, or conflict of interest. Courts and regulators should be empowered to impose meaningful sanctions, including criminal liability where warranted.

3. **Enhance Transparency and Reporting Standards**

   Enforce stricter disclosure obligations concerning beneficial ownership, ESG risk management, and lending portfolios, especially in high-risk sectors. This can be modelled on the EU's Corporate Sustainability Reporting Directive (CSRD).

4. **Establish an International Regulatory Body or Tribunal**

   Advocate for the creation of a global oversight mechanism or tribunal focused on transnational corporate-finance misconduct. Such a body could facilitate cross-border investigations, ensure standardization, and adjudicate disputes involving global financial institutions.[24]

5. **Improve Whistle-blower Protections and Internal Ethics Mechanisms**

[24]Digital Legal Identity Governance, "Legal and Regulatory Framework," available at: https://www.governance4id.org/framework/legal-and-regulatory-framework (last visited on April 15, 2025).

Mandate whistle-blower protection laws and strengthen internal compliance systems to detect and address unethical practices early. This includes establishing anonymous reporting channels and independent ethics committees.

6. **Adopt and Localize Global Standards Effectively**

   Domestic regulators should not only adopt but also effectively enforce international standards (e.g., Basel III, FATF, OECD Guidelines), adapting them to local contexts and ensuring continuous compliance through real-time monitoring tools.

7. **Increase Individual Accountability for Executives**

   Expand individual liability regimes like the UK's Senior Managers and Certification Regime (SMCR) to hold executives personally accountable for institutional failures under their leadership.