PART II

CIRCULARS OF BANQUE DU LIBAN AND ACTIVITIES OF THE ASSOCIATION OF BANKS IN LEBANON

In 2020, the Association of Banks in Lebanon followed up on organizational and legislative issues and numerous matters related to the banking profession with the monetary and supervisory authorities, and in cooperation with banks' administrations.

Following the financial crisis that the country witnessed along with the dollar shortage at the beginning of 2019 that weighed heavily on Lebanon's economy and aggravated in 2020, the Banque du Liban (Central Bank) interfered by issuing a series of circulars by the end of 2019 and throughout 2020.

- **Exceptional Loans To Cover Maturities in Exceptional Situation (Intermediate Circular 547 and Intermediate Circular 552 Related to Basic Circular 23)**
Addressing the possible continuation of the exceptional circumstances that the country is facing, and in order to ensure the coverage of maturities, the BDL required banks operating in Lebanon, under the **intermediate circular 547** issued in March 2020 and the **intermediate circular 552** issued in April 2020, to extend on their responsibility exceptional loans in local or foreign currency to existing customers who already benefit from different types of loans, including subsidized ones, and who are unable to honor their debt obligations for the months of March, April, May and June 2020, due to the current economic crisis. These loans must be settled over the course of 5 years in monthly or semestrial payments according to the loan agreement signed between the concerned bank or the financial institution and the customer, as of June 30, 2020, or by the end of the month succeeding the one during which said loans were given. The BDL will provide banks and financial institutions with lines of credit in USD over a period of five years and at a zero interest rate for an amount corresponding to the loans provided by these banks to their customers in local and foreign currencies, according to the provisions of this article and upon submission of the qualifying applications. In this framework, the BCCL issued **Memo 8/2020** requesting banks to submit a report concerning the exceptional loans granted based on Article 4 bis of **basic circular 23**.

- **Provide Foreign Currencies Required For Imports In Productive and Vital Sectors (Intermediate circulars 556, 557, 561, and 573 Related to Basic Circular 23)**
Given the difficulties the country has been facing and by which some banks were hampered in terms of issuing letters of credit required for the imports, and taking into consideration the importance of preserving the public interest by ensuring foreign currencies under more advantageous conditions for the productive and crucial sectors, the BDL issued **intermediate circular 556** in May 2020, under which banks can resort to the BDL to conduct foreign exchange operations and finance 90% of the import bill of raw materials for licensed industrial institutions in foreign currency. The size of said facilities is capped at USD100 million or the equivalent in other foreign currencies, knowing that the customer would not benefit from the provisions of this article if the size of the import transaction exceeds USD300,000 or the equivalent in other foreign currencies. The circular also stipulates that the manufacturing export companies benefiting from the provisions of this circular must repatriate a portion of their exports bill in foreign currencies equivalent to at least the size of the facilities that were allocated to import raw materials.

The exceptional circumstances Lebanon has been facing drastically impacted the finance of basic food products and raw materials for food industry imports. The BDL issued therefore **intermediate circular 557**, stipulating that banks operating in Lebanon can resort to the BDL to conduct foreign exchange operations for food importers and producers, in order to finance the import of basic food products and raw materials for basic food industries according to a list published by the Ministry of Economy and Commerce. The applicable exchange rate would be specified based on the mechanism used under the provisions of article 7 bis of the basic decision no. 7548 dated March 30, 2000. Products intended for sale to farmers are to be added later to the food industries through **intermediate circular 564** issued in July 2020.

In June 2020, BDL issued **intermediate circular 561** (to amend the provision mentioned before in intermediate circular 535 and added to **basic circular 23**) stipulating that banks can resort to the BDL to conduct foreign exchange operations in foreign currency to finance 90% of the import bill of oil imports (petrol, fuel, gas) and 85% of the import bill of wheat, medicine, medical supplies, infant milk (for one-year-old babies), and raw materials used in the manufacturing of medicine, provided these imports are to be exclusively consumed locally in accordance with the Lebanese market needs.

In October 2020, BDL issued **intermediate circular 573** stipulating that customers must settle the required amount in Lebanese pound to the concerned bank at the applicable exchange rate specified by the BDL in its transactions with banks (1507.5 Lebanese pounds per U.S. Dollar). The bank must deposit the said amount at BDL in the form of Banknotes in order to secure foreign currencies for import. This circular aims to absorb Lebanese pound banknotes that were injected into the market due to the printing of the currency, which contributed to a record increase in inflation and led to a further deterioration in the lira exchange rate.

With the continuation of the aforementioned exceptional situations, the BDL issued, **in April 2020, a series of basic circulars 148, 149, 150, and 151**.

- **Exceptional Procedures Related to Cash Withdrawals From Small Accounts (Basic Circular 148)**

  The **basic circular 148** stipulated that if small depositors whose total net deposits of all types and maturities do not exceed LBP 5 million on the date of the issuance of the circular requested to carry out any withdrawal or fund operation in cash, banks must transfer the amount to be withdrawn into USD according to the price determined by the BDL in its dealings with commercial banks. The amount in USD resulting from the exchange operation shall be then transferred to LBP and disbursed according to the market price stated in the electronic platform for exchange operations (this sentence is amended from "according to the market price" by virtue of intermediate circular 565 issued in August 2020) on the date of the customer's withdrawal request. As for depositors whose total net deposits do not exceed USD 3000, they are allowed to withdraw the entire amount according to the market's exchange rate on the date of the withdrawal operation. The circular also mentions that the calculation of deposits includes all related accounts and that the amounts should be calculated after rebating the value of any debts owed by the customer to the bank in accordance with **intermediate circular No. 549.** This circular was extended until 3/10/2020 in accordance with **intermediate circular No. 563** issued in June 2020.

- **BDL's Purchase of Foreign Currencies (Intermediate Circular 149)**
  Further to the measures adopted in response to the exceptional circumstances affecting the exchange rate, the BDL issued **basic circular 149** to establish a special unit in the Directorate of Monetary Operations in the Bank of Lebanon, whereby any exchange institution wishing to trade in foreign currencies can apply to subscribe to this unit, and the BDL will then choose the participating institutions. The circular also stipulated the establishment of an electronic platform that includes the BDL, the banks, and the exchange institutions, through which the foreign exchange rates, especially the USD rate, will be announced. The **intermediate circular 550** required banks to provide the aforementioned Directorate with the fund cash balances in LBP and USD, and with the total payment operations on the ATMs. The **basic circular 149** was extended until 31/3/2021 through **intermediate circular 571**.

- **Exceptional Exemptions from the Mandatory Reserve and Banks Mandatory Placements (Basic Circular 150)**
  The **basic circular 150** and its amendment in **basic circular 554** exempted banks from mandatory placements at BDL against inward transfers in foreign currencies and/or cash receipts in foreign currencies received after April 9, 2020. These exemptions remain applicable even if the beneficiaries convert, in part or in full, the funds to any other currency, or if they request to transfer the amount to any other bank operating in Lebanon which will, in turn, benefit from the aforementioned exemptions instead of the bank that initially had received the funds. The transfer shall be made through the foreign correspondent bank in the application of this article. In the first months of 2021, BDL issued **intermediate circular 580** requesting banks to deposit 100% of the value of the above-mentioned funds in cash, either with it or in an account free of any obligations with its correspondent banks. To ensure the application of this decision, the Banking Control Commission of Lebanon requested banks in **Memo 13/2020** issued in August 2020 to adopt the stipulations of the circular regarding Fresh Money, in terms of allowing customers to have free access to their money in order to benefit from all services provided by the bank, of ensuring cash liquidity (as mentioned also in **Memo 18/2020** issued by BCCL), of paying them to the customers in full in the event of withdrawal requests or cash fund operations within a maximum of seven working days from the date of the customer's request, and in terms of not requesting customers to transfer any part of the new funds into Lebanese pounds or freeze them for a certain period. **Memo 12/2020** also requested banks to submit a report concerning the new funds and to modify the "MGAP" form regarding entitlements of certain items of assets, requirements, and extra-budgetary items.

- **Cash Withdrawals From Accounts in Foreign Currencies (Basic Circular 151)**
  The Basic Circular 151 and its amendments in intermediate circular 572, all while maintaining decision 13217 issued in April 2020, stipulates that in case customers request to perform cash withdrawals or cash transactions from their accounts or receivables in USD or other foreign currencies, banks operating in Lebanon shall, provided they obtain the approval of the concerned customer, settle the equivalent of the requested amount in LBP at the market rate adopted by the electronic platform for exchange operations and according to the measures and limits adopted by the concerned bank. Each bank shall, in addition to the daily announcement of its applied market rate, sell foreign currencies resulting from such operations. In October 2020, the application of **basic circular 151** stipulating that the customer can withdraw limited amounts in USD and according to the rate of BDL's electronic platform, which is LBP 3900 per USD, was coming to an end. Before its expiration, **intermediate circular 572** extended the period to March 31, 2021, in order to ensure that the withdrawal of deposits is still at the rate of LBP 3900 seeing that the electronic platform's rate could be adjusted. The Governor extended the period to September 30, 2021, through **intermediate circular 581** issued in March 2021.

- **Help People Affected By the Explosion of the Beirut Port (Basic Circular 152)**
  After the massive explosion that destroyed the port of Beirut in August 2020 alongside the ongoing exchange rate crisis, BDL issued **basic circular 152** to help those affected by the explosion, requesting banks to grant exceptional loans in USD to the affected (individuals, individual institutions, Small and Medium-sized Enterprises, and corporates – except for real estate developers – in repairing their houses and institutions, provided that banks obtain invoices showing the amounts paid in exchange of these repairs. Banks shall grant such loans irrespective of loan limits, with 0% interest rates to be paid over a period of five years. The customers can settle the exceptional loans in Lebanese pounds at the exchange rate applied by BDL in its dealings with banks. The **intermediate circular 569** also stipulates that banks must require borrowers who received any compensation, monetary aids or assistance for the restoration of their houses or institutions (such as total or partial compensation from insurance companies or aids from relief agencies, etc.) to totally or partially settle the exceptional loans granted to them. In addition, upon the request of customers, these loans can be granted by banks and financial institutions in Lebanese pounds according to the market rate set by BDL's electronic trading platform capping said amount at USD 15,000 per beneficiary.

- **Disburse Inward Transfers in Foreign Currency in USD (Intermediate Circular 566 Related to Basic Circular 69)**
  Under these circumstances, and in accordance with **intermediate circular 566** issued in August 2020, and related to **basic circular 69**, the BDL requested all non-banking institutions that conduct money transfer operations to disburse any inward transfers in USD (BDL had requested these institutions earlier under intermediate circular 551 issued in April 2020 to disburse any inward transfers in foreign currency in Lebanese pound at the applicable market exchange rate).

- **Settlement of Borrower s' Retail Foreign Currency Overdue Installments in LBP (Intermediate Circular 568 Related to Basic Circular 81)**
  BDL issued in August 2020 **intermediate circular 568** related to **basic circular 81** requesting banks to accept the settlement of borrower s' retail foreign currency loans or overdue installments, including personal loans, in LBP according to the exchange rate adopted by BDL in its dealings with banks (currently LBP 1507.5 per USD), provided that the customer is a resident and does not have an account in foreign currency with the concerned bank that can be used to settle the loan installments. The customer's total housing loans shall not exceed USD800,000 and total retail loans shall not exceed USD100,000. As for non-residents, settlements shall be made with fresh money transferred from abroad.

- **Opening Bank Accounts and Interest on Foreign Deposits (Intermediate Circulars 544, 558, 578, and 579 Related to Basic Circular 147)**
  At the end of 2019, the BDL issued **basic circular 147** related to the opening of banking accounts, and its amendment in **intermediate circular 536**, under which banks are required, when they open a bank account for a natural or a legal person residing in Lebanon in order to ensure the running of the latter's commercial, professional, or service businesses and activities, to obtain from that person a copy of the registration certificate at the Ministry of Finance. Banks are also requested to adhere to the capped interest rates at 5% on bank deposits in foreign currency and 8.5% on deposits in Lebanese pounds, all received or renewed after 4 December 2019. 50% of interest on foreign deposits shall be paid in the account's currency and 50% in Lebanese pound. The provisions of said circular were valid for a period of 6 months from the date of its issuance and have been extended until June 30, 2021 under **intermediate circular 578**.

  The BDL also issued in February 2020 **intermediate circular 544** to amend basic circular 147 and require banks to abide by the interest rate ceilings paid on new or renewed customer deposits after February 13, 2020. The circular also mentions that banks operating in Lebanon should reflect the low-interest rates resulting from the application of these provisions while calculating Beirut Reference Rates (BRR). The provisions of said circular were valid for a period of 6 months from the date of its issuance, and have been extended until December 31, 2020, under **intermediate circular 558**.

  Under **intermediate circular 579** issued in January 2021, Article 4 bis have been added to request banks receiving deposits or transactions in USD or any other foreign currencies from international institutions and donors to be distributed to beneficiaries, to inform BCCL of such amounts and the exchange rate adopted in case they are exchanged from USD to LBP.

- **Banks Capital Framework (Intermediate Circulars 543, 567 and 575 Related to Basic Circular 44)**
  In the first months of 2020, the BDL issued **intermediate circular 543** under which BDL amended risk-weighted assets at BDL to become 150% (including Certificates of Deposits) in foreign currencies apart from deposits for less than one year, as the monetary and supervisory authorities are committed to taking necessary measures

to continue strengthening the capital funds and building necessary provisions. Basic circular 44 concerning the capital framework of all Banks operating in Lebanon was amended under **intermediate circular 567** issued in August 2020 to ensure Lebanese banks' commitment to Solvency averages requested by the BDL. Therefore, banks are prohibited from distributing dividends if their Common Equity Tier One Capital Ratio falls below 7%, their Tier One Capital Ratio below 10%, and their Capital Adequacy Ratio (CAR) below 12%. Banks are required thereof to constitute a Capital Conversation Buffer of 2.5% of Risk-Weighted Assets, and in case they fail in achieving said buffer, they must propose an action plan to the Banking Control Commission to build this threshold.

- Contrary to the above-mentioned clause, **intermediate circular 567** also stipulated an exceptional possibility that would allow the decrease of the "Capital Conservation Buffer" below the required rate (i.e. 2.5%) during 2020 and 2021, provided banks will have to bridge the gap with a minimum value of 0.75% per year starting 2022, in order to once again reach the 2.5% threshold by 2024. Every bank must prepare a comprehensive plan to conform to the capital requirements and the regulations required by the regulator. The said plan should reflect the bank's strategy to complete the aforementioned requirements, taking into consideration the provisions required by the BCCL and/or auditors in the frame of their periodic reviews, and the bank's estimation of the provisions and losses arising from different kinds of risks, provided that the deadline for banks to comply with the rates and standards set by the BDL is determined. The circular also stipulated the possibility of recognizing general and special provisions against expected credit losses on financial assets within the balance sheet, and productive extra-balance liabilities that have not seen a significant increase in credit risk (stage1) within the supporting private funds up to a ceiling of only 1.25% of the value of risk-weighted assets adopted in the calculation of solvency ratios.

  Banks can also take the following exceptional measures mentioned in the said circular:
  - During 2020 and 2021: Add to Tier One Capital – the ordinary shareholders' common stock – 100% of the provisions (i.e., the value of previously formed and to be formed provisions) taken on balance sheet financial assets and off-balance sheet financial commitments that have not witnessed a significant increase in credit risks (Stage1) and those that have (Stage2).
    The previously mentioned provisions do not include those built-in investment portfolios in Lebanese Treasury Bonds denominated in Lebanese Pound and foreign currencies, and those built-in investment portfolios at BDL in Lebanese Pound and foreign currency including Certificates of Deposits.
  - Starting 2022 till the end of 2024: The aforementioned provisions taken as part of common equity tier 1 capital will be gradually amortized to the following:
    - Maximum of 75% in 2022.
    - Maximum of 50% in 2023.
    - 25% in 2024.

  The provisions of article 11 bis shall be suspended until the end of 2024.

The Banking Control Commission issued **circular 299** on October 1, 2020, abiding by **basic circular 44** and in compliance with Basel International Committee international standards regarding solvency ratios. BCCL also issued **memo 3/2021** to amend clauses and templates mentioned in BCCL **circular 299**.

BDL **circular 567** also amended basic circular 44, requesting banks to refrain from distributing profits to shareholders for the years 2019 and 2020, and to increase by December 31, 2020, their common equity tier one capital by 20% from their previous level calculated on 31/12/2018 with any type of any new type of accepted foreign securities among various categories of common equity tier one capital. Contrary to the provisions of decision 7462/1999 related to banks' real estate placements, BDL's central council can exceptionally consent a bank to complete 50% of the 20% abovementioned required capital through the transfer of properties from the shareholders to the concerned bank conditional upon the liquidation of said property or properties within a period of five years from the date of BDL's approval. Also, the capital gain from the revaluation of fixed assets (lands and buildings) that banks fully own, as well as fixed assets fully owned by real estate companies in which concerned banks contribute, can be included in banks' tier one capital, except for the fixed assets related to loans' settlements, noting that the revaluation process shall be done before December 31, 2021. Therefore, model 153A was amended through BCCL Memo 2/2021 where the revaluated value of fixed assets not owned from loans' settlements when calculating the provisions of Article 153 of the Code of Money and Credit.

In accordance with article 154 of the Code of Money and Credit, **Intermediate circular 575** exceptionally accepts adding one-third of capital gains that result from the revaluation of fixed assets owned from loans' settlements according to Article 154 of the Code of Money and Credit, provided the common equity tier one capital would be increased by December 31, 2021, and in compliance with the conditions mentioned in the circular.

- **Enhancing banks' liquidity (Basic Circular 154)**

Ever since the uprising erupted on October 17, and before the restrictions that were subsequently established, many big depositors have transferred their deposits abroad as a result of the lack of confidence in the banking sector. It should be noted, however, that there is a draft bill on restrictions on deposits and transfers that aims at regulating transfers and withdrawals in order to protect depositors' money in the banks.

According to **basic circular 154** issued by the BDL in August 2020, the latter requested banks to enhance their liquidity at their correspondent banks abroad by urging clients who have transferred abroad since July 2017 more than five hundred thousand dollars to deposit an amount equivalent to 15% of the transferred value. A proportion of 30% shall be implemented on banks' shareholders, Board members, and Politically Exposed Persons (PEPs) in order to enhance banking liquidity. The circular also stipulates that the aforementioned amounts shall be deposited in a five-year term "special accounts". The BDL imposed as well ceilings on liquidity periodically delivered to banks, which led the banks to tighten the cash withdrawal limits on each account. The circular stipulates exceptional measures to reactivate the banks' operations in Lebanon, whereas each bank must constitute, by 28 February 2021, a foreign account free of any obligations at its correspondent bank abroad. Such account shall be at no time below 3% of the concerned bank's total foreign-currency deposits as of July 31, 2020.

The sector's liquidity is an estimated value of USD3.4 billion. Several banks have granted this request within the deadline, while others have sold their assets abroad or merged their units. **Memo 18/2020**, issued by BCCL, requested banks to permanently maintain a "free foreign account" equivalent to at least 3% of the "foreign currency deposits" balance in order to calculate the ratio of overseas liquidity (foreign account/foreign currency deposits).

In this frame, BCCL issued **memo 15/2020** in October 2020 regarding the compliance plan with capital requirements in accordance with basic circulars 154 and 44. This memo requests banks to identify the required capital needs to adhere to the minimum solvency ratios, including the capital conservation buffer, in accordance with the table in the memo. Banks are also requested to prepare a plan for securing capital needs, taking into consideration the bank's strategy and business plan for the next five years, the minimum required provisions on the treasury bonds portfolio, provisions on the loan portfolio granted to public sector institutions in Lebanon, the BDL placements balance sheet and the expected provisions in the statement of profit or loss on the loan portfolio, and other provisions. The bank shall clearly identify its choices, and the BDL and BCCL shall be informed of the plan, the possible obstacles, and the semi-annual updating of the plan.

- **Application of the International Financial Reporting Standard 9 Requirements (IFRS 9) and Building of Provisions (Intermediate Circulars 542 and 567 Related to Basic Circular 143)**
  For many years, banks have been keen to allocate part of their profits to the free reserves and to build the required provisions in compliance with the requirements of the International Financial Reporting Standard 9 (IFRS 9) implemented since January 1, 2018. **Intermediate circular 542** issued by BDL on February 2020 added to **basic circular 143** stipulates that the ratios of expected credit losses on Lebanese Pound and foreign currency-denominated investment portfolios at BDL, including CDs and placements in Lebanese TBs denominated in Lebanese Pound and foreign currency, must not exceed, for the years 2019 and 2020, the ratios of regulatory expected credit losses specified in Annex (6) of Basic circular No 6939 of March 25, 1998 (Capital Adequacy Regulatory Framework for Banks Operating in Lebanon). **Intermediate Circular 567** subsequently amends this paragraph requesting banks to apply, as a minimum, the following mechanism to build provisions corresponding to their sovereign placements portfolios:

  First, in accordance with annex (6) of Basic Decision 6939 issued on March 25, 1998, banks shall adopt systematically calculated rates of expected credit losses on placements portfolios at BDL denominated in Lebanese pound and foreign currency (including CDs), and placements in Lebanese TBs denominated in Lebanese Pound and foreign currency, in order to build Profit or Loss Statement provisions on portfolios mentioned hereinbefore. Second, banks shall build the above-mentioned provisions gradually over five years. The Central Council, therefore, approves the extension of the time limit to 10 years whenever the concerned bank implements Tier One Capital increase as defined in article 6 bis of basic decision 6939 as of March 25, 1998.

- **Amendment of Applied System on The Regulation of The exchange Institutions (Intermediate Circulars 546, 553 and 565 Related to Basic Circular 3 Addressed to Exchange Institutions)**
  Seeing that the crisis in Lebanon was escalating and affecting the foreign exchange rate, and in order to prevent the exploitation of the free circulation of foreign exchange under the law 347/2001, the BDL issued **intermediate circular 546/2020** related to **basic circular 3** requiring exchange institutions a ceiling for the purchase of foreign currencies against the LBP at 30% of the price determined by the BDL in its dealings with the banks. However, following the unjustified increase of the USD to LBP exchange rate by the end of 2019, and given the importance of protecting the exchange rate stability and maintaining the purchasing power of the Lebanese people, especially those with limited income, the BDL issued **intermediate circular 553** in April 2020, requiring exchange institutions to exceptionally abide by a cap of LBP 3,200 per USD, and prohibiting them from adopting uncustomary buying/selling spreads. In **Memo 1/2020**, the BCCL requested exchange institutions to provide weekly records of the two biggest exchange operations made every working day. In August 2020, BDL issued **intermediate circular 565** to cancel this article from the application system of the Law regulating the Money Changer Profession in Lebanon attached to Basic Decision 7933/2001 (Basic Circular 3 for Exchange Institutions).

- **Electronic Platform for Exchange Operations (Basic Circular 5 for Exchange Institutions)**
  In June 2020, the BDL issued **basic circular 5** related to the electronic platform for exchange operations. The circular requires exchange institutions to subscribe to the electronic platform by registering to the electronic application "Sayrafa", through tablets that will be delivered to every exchange institution. These institutions must also select a platform or a set of electronic platforms with specified locations on "Sayrafa", in order not to conduct any exchange operation involving USD and any other currency that might be added later onto the platform outside the specified locations. In addition, exchange institutions must clearly and transparently specify and enter the daily adopted prices on "Sayrafa". Following the establishment of the electronic platform involving the BDL, banks, and exchange institutions, the BDL issued **announcement 934** to banks in order to regulate exchange operations and protect the stability of the LBP exchange rate, considering that each bank has an exchange license

and must therefore take the necessary measures to carry out cash exchange operations in accordance with the concept of the above-mentioned Law 347. The BDL requested banks operating in Lebanon to subscribe to the platform, register for the application, and comply with its requirements no later than April 16, 2021.

- **Transfers to Lebanese Students Abroad (Basic Circulars 153 and 155)**
  Considering the emerging exchange rate crisis and the issues faced by parents in terms of transferring money to their children to continue their studies abroad, the BDL issued **basic circular 153** in August 2020 regarding transfers to Lebanese students abroad. This circular stipulates that banks operating in Lebanon must perform outgoing transfers from their customers' foreign-currency current accounts, in order to ensure the payment of tuition fees, rent, and living expenses of Lebanese students abroad, provided the student was enrolled in an educational institution and has been living abroad before the end of 2019. Documents shall be submitted as evidence of the due amount provided the tuition fees are directly transferred to the recipient, and the total annual amount must not exceed, every year, USD 10,000 or the equivalent in other currencies.

  To implement Law 193 passed on October 16, 2020, The BDL issued **basic circular 155** in December 2020 related to Law 193 addressing the aforementioned topic. In detail, the circular requested banks to accept the applications submitted by parents of Lebanese students and to secure the transfers via their liquidity with correspondent banks. In addition, banks are requested to ensure avoiding the misuse of the circular's provisions by centralizing the information at the Association of Banks in Lebanon, which in its turn can exclusively verify for duplicate transfer applications.

  Therefore, the operating banks' statistics show that a total of USD 240 million were transferred to around 30,000 eligible Lebanese students studying abroad during the academic years 2019-2020 and 2020-2021.

- **Addressing Banks' Breaches relating to the Marketing of Preferred Shares (Basic Circular 156)**
  Taking into account the reputational and legal risks a bank might face in the event they commit violations towards their clients, the BDL issued, in December 2020, **basic circular 156** requesting banks to pay the 2019 and subsequent stipulated interest on preferred shares issued by the banks to natural persons (individuals) who were not aware of the nature of the marketed investments, based on the interest rate agreed on as part of the conditions of the issue. Banks that did not adhere are required to allocate provisions equal to three times the missed interest payments on the preferred shares or to establish an interest-free reserve account at BDL equal to three times the missed interest payments on the preferred shares and in the same currency denominations till the banks settle these payments with the shareholders.

- **Rationalizing Interest Rates Market**

  In 2020, the Association of Banks in Lebanon (ABL) persevered in sending a regular circular concerning the Beirut Reference Rate (BRR) in USD and LBP to banks operating in Lebanon. These rates decreased in 2020, fluctuating between a minimum of 4.53% and a maximum of 9.35% in USD, and between a minimum of 7.75% and a maximum of 12.45% in LBP. Starting early 2020, these rates began to decrease in line with the BDL decision to set interest rate ceilings on new deposits and renewed deposits after December 5, 2019. The ABL hoped that the reductions of the interest structure will motivate the economic activity, stimulate growth and employment, and ease the debt burden to free up additional resources used by the state to develop infrastructures and social protection, in line with **BDL intermediate circular 544** issued on February 13, 2020.

- **2% Taxation on Business Turnover**

  This taxation reveals the harm taxes caused for the banking sector, and how it led to the current situation. This tax was imposed after the decrease in profits, and after the monetary authority requested banks to increase capital and build provisions and reserves in compliance with the requirements of IFRS 9. In virtue of the decision 245/1 issued by the Minister of Finance on July 6, 2020, concerning the determination of the elements constituting banks' business turnover to be adopted to settle the tax stipulated in Article 20 of the Law, the Board of Directors decided to appeal the decision before the State Council. A copy of the appeal review was distributed to banks to be informed and take necessary action.

- **Some Aspects of the Implementation of Circular 154**

  The ABL discussed circular 154, most specifically the necessity to send a letter to the depositors who transferred money overseas, to urge them to transfer back between 15% and 30% of said amount according to the depositor's category mentioned in the said circular. The Association, therefore, decided to elaborate a standard copy that should be sent to the client and provided to the banks as well.

  However, some of the circular's practical aspects remain unclear. The Association worked with the monetary authorities to clarify the circular and gradually informed banks of the latest developments made herein, as this circular is the key to the restructuring of the banking sector.

- **Basic circular 155 related to Law 193 issued on October 16, 2020 (transfers to Lebanese students abroad)**

  The Association of Banks established an information centralization on December 10, 2020, to ensure that the right of transfer is not reused and that transfer requests are not repeated nor multiplied in favor of a single beneficiary. Banks acted in response to the information centralization which facilitated the implementation of the so-called student dollar. Statistics showed that more than USD 240 million were transferred during the academic years 2019-2020 and 2020-2021.

- **Appointment of International Financial and Legal Advisers**

  The Board of Directors, after discussing the position made by the State and declared by the Prime Minister on the payment of Eurobonds and on the need to defend the rights of shareholders and depositors by the best means, decided to agree on appointing international financial and legal advisers. Parts of this annual report can be reviewed to be informed about the Government/Lazar plan and the Association's contribution to its criticism and denunciation made to prevent the significant harm the plan has caused to the country and the sector.

- **The Association's Contribution to Financing the National Action Plan for the Response to Covid-19**

  The Board of Directors decided to contribute an amount of USD 6 500 000 to finance the National Action Plan to combat the spread of Covid-19. Said amount was made at the disposal of the competent national committee established by the Presidency of the Council of Ministers.

A) ABL OBSERVATIONS ABOUT THE SUGGESTED AMENDMENTS TO BASIC CIRCULAR 44

The ABL discussed three issues: risk weights on assets in foreign currencies at BDL, minimum capital adequacy ratios, and applied ratios on systematically expected losses calculation

- **Regarding the Increase of the risk weights on assets in foreign currencies at BDL:**

The ABL considers this increase justified under the current circumstances.

However, the increase of placements risks from 50% to 150% does not provide the required distinction with unexpected placements risks in foreign currencies (Eurobonds) with the Lebanese state. Therefore, the ABL considers that a distinction should be therefore maintained between sovereign placements risks and placements at BDL. Eurobonds reserves, BDL's gold stock, and some BDL's placements such as statutory reserve and current accounts in foreign currencies shall be taken into consideration, the thing that would make them in line with the suggested ratios for the systematically expected credit losses calculation, to make the impact of these increases on capital adequacy more sustainable and manageable.

- **Decreasing the Minimum Capital Adequacy Ratio to 7%, 8.5%, and 10.5% on CET 1 Capital, Tier 1 Capital, and Total Capital**

The ABL welcomed the determination of the minimum capital adequacy ratio according to levels required by the Basel Committee, most specifically the Basel III standard issued in 2011. However, imposing additional ratios no less than 7%, 10%, and 12% to CET1, Tier1 and Total CAR accordingly to allow the distribution of profits runs counter to the Conservation Buffer reaching 2.5%, knowing that the Basel Committee adopted said Conservation Buffer to prevent banks from distributing dividends in case any failure occurs, according to limits set in Basel III framework (paragraph 131 of Basel III issued in December 2010 and amended in June 2011). Given the current exceptional circumstances, witnessed by most banks, and the significant risks they are currently facing, the ABL suggested extending the deadline to build a threshold and recapitalize from 3 to 5 years, in line with similar transitional mechanisms imposed by the global regulatory authorities following the 2008-2009 global financial crisis, and with Basel Committee's guidelines during the Corona pandemic.

- **Increasing Applicable Ratios to Calculate Regulatory ECLs on Local portfolios and BDL placements in foreign currencies**

According to suggested amendments, the Regulatory Expected Losses ratios on the credit portfolio increased 5 times their previous levels (9.45% for Corporate Credit portfolio, 3% for small and medium-sized enterprises Credit portfolio, 1.75% for retail loans and housing loans portfolios, and 3.6% for the portfolio of loans secured by real estates used for commercial purposes). This indicates that, according to IFRS9, the entire local portfolio is indirectly classified in Stage 2 as produced financial assets with a marked increase in credit risks (under-performing). The increase of risks in the credit portfolio caused by the current economic situation does not necessarily justify the adoption of high rates to calculate expected losses. This view is based on the fact that, in accordance with supervisory requirements imposing relatively high provisions due to the current deteriorating economic conditions, banks are currently applying IFRS9 on their portfolios including Forward-Looking provisioning. However, imposing common and relatively high ratios to calculate expected losses on local loans of all banks does not distinguish between the different categories currently applied by banks in accordance with BDL basic circular 143 (article 7) and BCCL circular 293 (article 4), and does not take into consideration the active and appropriate management of each bank's non-performing financial loans classified in Stage 3.

Therefore, and since further provisions requirements will be addressed as part of the implementation of IFRS9 set specifically for the afore-mentioned purpose, ABL suggested maintaining applicable ratios to calculate regulatory ECLs on local portfolios according to the current version of said circular.

B) ABL OBSERVATIONS ABOUT SUGGESTED AMENDMENTS TO BDL BASIC CIRCULAR 143

The ABL made observations about, first, provisions of sovereign risks in foreign currencies and, second, their correspondent Fixed positions.

- **Provisions built on placements in foreign currencies at BDL and the Lebanese government securities**

Although amendments impose a regulatory ceiling on the ratios of expected credit losses in foreign currency-denominated placement portfolios at BDL and Lebanese TBs denominated in foreign currency, the suggested amendment would not specify whether the built provision on credit losses are calculated within Tier 2 capital. Hence, the ABL suggested amending article 12 of basic circular 44 and making the built provisions on such huge investments explicitly calculated within Tier 2 capital. Banks are therefore able to support their total capitals given the placements risks increase and the suggested amendment of the regulatory framework for minimum capital adequacy

- **FX Positions**

Article 12 of basic circular 143 obligates banks to build provisions for every type of asset and liability under IFRS9 in the currency of financial assets within balance sheet liabilities. Taking into account exchange market restrictions, foreign currency credit losses will accordingly increase in banks, causing extra pressure on FX positions, which requires a parallel solution.

C) THE ABL OBSERVATIONS CONCERNING THE TWO DRAFT CIRCULARS REGARDING THE IMPLEMENTATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARD 9 (IFRS 9) AND THE AMENDMENT OF THE REGULATORY FRAMEWORK OF CAPITALS OF ALL BANKS OPERATING IN LEBANON

The Association welcomed the suggested amendments attempting to enhance the capitalization and solvency of Lebanese banks to face the risks caused by the recent economic and operational situations.

A) AN ABL DELEGATION VISITS PARIS

First, this visit was planned after the French President Emanuel Macron visited Lebanon twice, following the August 4th murderous explosion, which destroyed parts of Beirut and killed and displaced its people, and second, to correct the wrong impression taken by the French services - the Élysée, the Ministry of Foreign Affairs and the Ministry of Finance – because of the plan established by Lazar Financial Advisory Company that lacked objectivity and a realistic view of the Lebanese economy. The wrong impression was also given by Lebanese officials and senior officials who have relations with certain French bodies by fellowship or chronic engagement, and who were driven by personal ambitions prioritized over Lebanon's public interest. All of these parties, whether it was Lazar Company or the consultants and senior officials have worked to "demonize" the banking sector and the Central Bank by being in contact with various French administrations.

During the meetings, the ABL had 4 focal points: first, the role played by the banking sector in financing the rehabilitation and reconstruction of the Lebanese economy during the three decades (1990-2020), while stressing the willingness of banks to keep up with the next phase and to contribute to the financing of institutions and the economy within the program carried out by the International Monetary Fund (IMF) and global financial institutions, especially since banks have a great deal of experience in dealing with these parties. Second, is the role the banking sector played in attracting and mobilizing Lebanese savings through its extensive internal and external outreach network. Third, Lebanese banks operate in full transparency with global markets and comply with international standards to fight money laundering and terrorist financing. Two audit firms, with one of them among the four global companies, supervise banks. Fourth, restructuring the banking sector is deemed necessary and can be accomplished under the supervision of monetary and regulatory authorities and in cooperation with the International Finance Corporation, the European Investment Bank, and other global investors having the necessary capacities and techniques. Nothing prevents big depositors from participating in the recapitalization process. Capitalization shall be done in full transparency and professionalism away from hidden intentions and secrecy.

French authorities focused on the need to carry out required reforms to revitalize the Lebanese economy, starting with electricity, controlling Lebanon's maritime and land borders with Syria, and stopping waste and corruption through better management of public facilities and institutions, either by privatization or signing management and operation contracts with efficient parties. French authorities also drew attention to the paramount importance of restructuring the banking and financial sector in Lebanon, including auditing the accounts of the BDL.

The ABL and French authorities finally agreed on the important role of banks in the process of economic development. No modern economy exists without efficient banks whose financial positions are strong and capital base is solid.

B) DRAFT CAPITAL CONTROL LAW

Since the end of October 2019, the ABL has called upon various relevant monetary, financial, and executive authorities to pass capital control law but no response has been delivered. Banks were therefore obliged to adopt a set of practical controls on cash withdrawals and overseas transfers to protect the remaining foreign cash reserves and regulate their use.

The ABL gratefully participated in the Budget and Finance meetings held to examine the Capital Control draft law. On 21 April 2021, the ABL unanimously expressed its point of view regarding said law in an official letter submitted to the Head of the Finance and Budget Committee. The Association's position is summarized as follows:

One: Law's Basic Principles

1-According to most experiences worldwide, Capital Control Law essence is to completely prohibit transfers abroad to maintain foreign currencies reserves within the country;

2- In its guidance sent to states, including Lebanon, and in respect of non-discrimination principle between depositors, the International Monetary Fund (IMF) emphasizes two key subjects: total prohibition of overseas transfers, even if it is for a specific period, and prohibition of internal exchange operations to a foreign currency;

3- To ensure its efficiency, Capital Control Law shall be adopted within economic and social objectives aimed at safeguarding financial stability in the country, on one hand, and revitalizing the economic cycle, on the other hand.

Accordingly, the adoption of any law without bearing the previously mentioned principles shall lead to the exit of deposits and funds and not to their recovery or return.

Two: Exceptions on Transfers Abroad

1. Banks cannot finance these exceptional transfers from their liquidity abroad for the following reasons:
   a) According to the latest statistics published by BDL as of February 2021, and despite the efforts exerted by banks, their external obligations are still greater than their external assets with a negative difference estimated at approximately USD 1.7 billion.

   b) According to the applicable draft law and BDL's circulars, any external liquidity that may be available at banks and generated from new deposits, most specifically Fresh Deposits, cannot be used because they shall be paid to their respective owners when they become due. Fresh deposits are legally protected as wisely affirmed by the Capital Control draft law.

c) 3% of external liquidity that banks seek to create with correspondent banks is governed by a set of rules that limits its use in the national economy development and is offset by the obligation to preserve it to return it to its owners after a specified period or when its deadlines become due. In addition, maintaining the liquidity size is a vital necessity to maintain the relationship of our banks with correspondent banks. This matter is of great importance for the future of the financial sector in Lebanon and for meeting the financing needs of the national economy in its economic and financial relations with the rest of the world.

2. To respect justice and apply the non-discrimination principle between depositors, and given the financial situation and the competition between the rights of customers beneficiating from exceptions with depositors' rights in general, it is essential to narrow the scope of exceptions as much as possible and to the minimum.

3. The Association considers that the financing of exceptional transfers shall be made exclusively from its free deposits in foreign currencies at the BDL, noting that customers' deposits in foreign currencies decreased by approximately USD 12.5 billion from October 2019 to February 28, 2021, which led to a decrease in the required foreign currency reserve by approximately USD 1.8 billion. These reasons are more than enough to fund the exemption requirements stipulated in the draft law in circulation. Therefore, the ABL suggests limiting these exceptions to a comprehensive ceiling that does not exceed USD 20 thousand annually to facilitate the work of individuals, provided transfer applicants submit a binding commitment stating that they do not have sufficient revenues abroad to cover the below-mentioned obligations in the following cases:

a- Usually made transfers to students with a limit of USD 7,000 according to what is stipulated in the draft law;

b- Hospital cases that are not available in Lebanon based on the recommendation of an independent medical committee;

c- The installments of housing loans due abroad and which were usually financed before October 2019;

d- Usually financed taxes due abroad on income in Lebanon only;

e- Payment of insurance policies installments to prevent owners from losing their rights arising before October 17, 2019.

Three: Internal Cash Withdrawals

Based on the abovementioned, and since the available liquidity in foreign currencies does not allow any withdrawals, cash withdrawals shall be only made in LBP according to the applicable rate of the electronic platform established and managed by BDL, provided that the monetary and financial authorities agree on the exchange rate and the allowed withdrawal ceilings for depositors to make.

In this regard, the ABL stresses the need to determine the allowed monetary ceilings to control the monetary mass in circulation to prevent inflationary pressures and their impact on the market exchange rates. Banks are ready to activate other payment tools including checks, payment cards, and internal transfers.

In this context, and to preserve the rights of depositors in foreign currencies, the ABL stresses the need to include, within the Capital Control Law, the obligation stipulating the settlement of all loans granted in foreign currencies in the same currency, taking into account the exceptions mentioned in the circulars issued by BDL relating to personal and housing loans, in accordance with the conditions specified in said circulars.