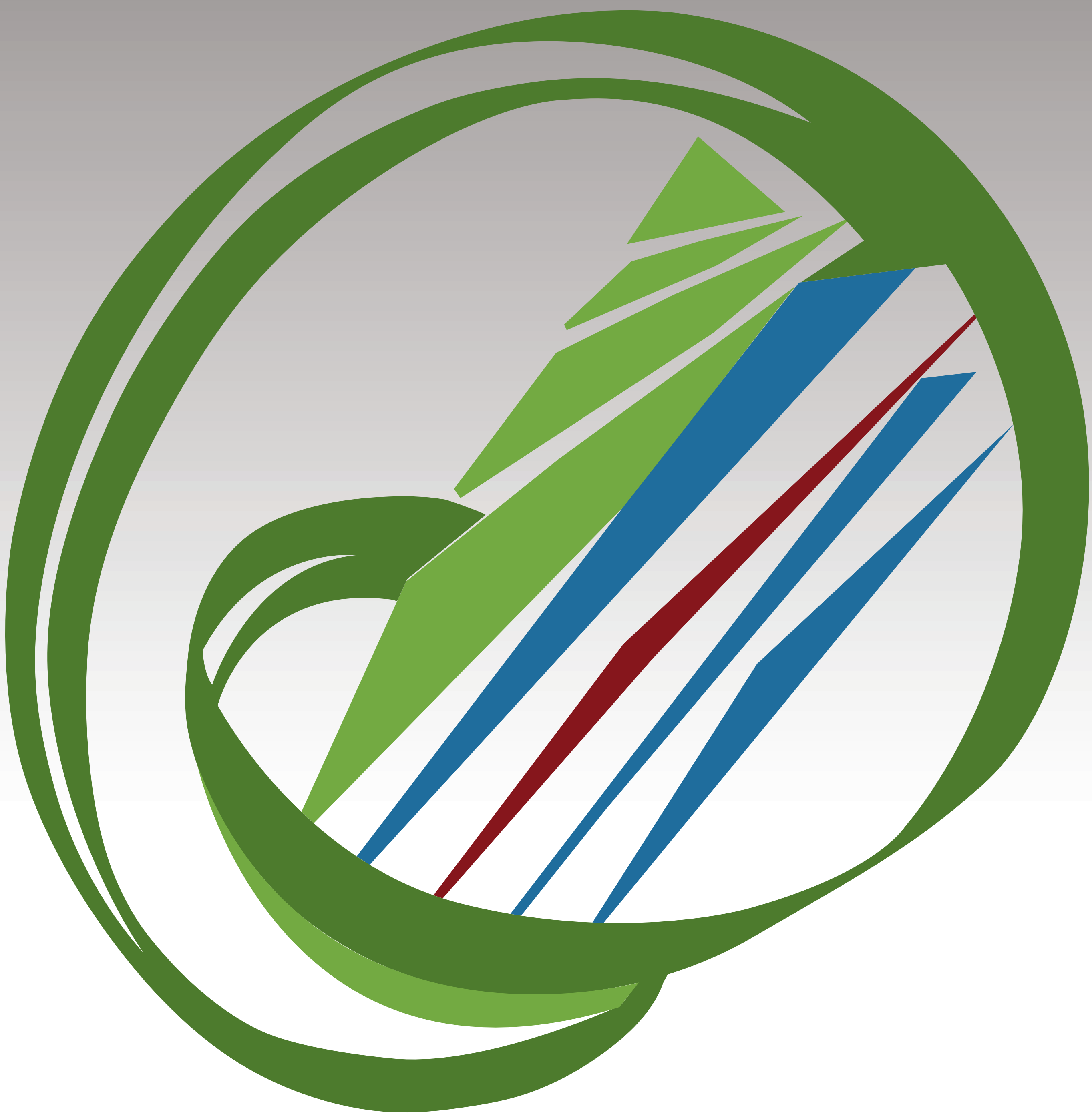
Association of Banks in Lebanon

The Lebanese Banking Sector

Pillar of Lebanon's stability



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Introduction

The Lebanese banking sector has a distinguished history, in the Middle East, and throughout the world. It has long been highly-regarded for its openness, stability, and sophistication. Moreover, throughout Lebanon's history, it has played an important role in the private sector, and in sustaining the public sector. Over the course of the past year, its practices and enforcement mechanisms have been subject to heightened international scrutiny. Regional instability, due largely to unfolding events in Iran and Syria, and developments concerning a single, now inoperative Lebanese banking institution, have been the foundation for this scrutiny fomenting broader criticism about Lebanon's commitment to transparency and openness, and its willingness to combat illicit financial activities, money laundering and terrorist financing.

Numerous questions regarding Lebanon's economic system and its stability and continued growth during the last several years, despite the global economic downturn, have been raised. It has been alleged that this relative stability has been the product not of prudent and sound macroeconomic fiscal policy, but rather the exploitation of the Lebanese financial structure and the banking system by regional and international actors engaged in criminal activity. It has further been alleged that these activities are the product of a permissive regulatory regime that does not properly enforce its own restrictions.

The Association of Banks in Lebanon, a fifty-three year old independent and self-regulating professional organization established for the purpose of evaluating, monitoring, and improving the banking sector, seeks to dispel inaccurate perceptions of its industry and its regulatory framework. To that end, it has prepared this informational circular in hopes of clarifying any misunderstandings about economic developments in Lebanon and its laws, regulations, and banking practices to ensure that the banking system is used for legitimate purposes.

This circular seeks to demonstrate that Lebanon's largely service-driven economy has benefited mainly from continued foreign direct investment and a conservative fiscal policy, which have largely insulated it from the global recession. Furthermore, it aims to convey that over the course of the last decade, the Central Bank of Lebanon and its partner institutions have worked intensively to develop a more aggressive and comprehensive legal regime to thwart illicit financial activities and to ensure that banks continue to monitor, implement and meet all accepted international standards. Finally, this circular aims to convey the crucial message that the core of the Association's mission and purpose, the strengthening Lebanon's banking sector, has been an ongoing process, a product of cooperation among both domestic institutions, and the international financial community. Lebanon's commitment is to both uphold this sector by continually improving its practices and policies. This is evidenced by its cooperation and relationship-building with multi-lateral institutions and governments, including the United States and the European Union.

About the Association of Banks in Lebanon

On October 6, 1959, the Association of Banks in Lebanon (the "Association" or "ABL") was established as a private, independent and self-regulating professional association. Its key mission is to effectively promote the interests and public image of the Lebanese banking sector, a crucial dimension of the Lebanese economy. The ABL plays a vital role as a coordinator among banks on common concerns regarding standards, procedures, technology, and other related issues. Equally important, it serves as a leading participant in and contributor to public policy debates and legislation, particularly those related to the financial sector. The ABL, has worked closely with the Banque du Liban, the Central Bank of Lebanon (the "Central Bank" or the "BDL"), in developing and implementing the laws and regulations promulgated during the last twenty years that affect the banking and financial sectors.

The ABL is comprised of member banks, many of which were historically largely family-owned and have evolved into well-managed and prosperous institutions. Many of the family-owned banks still have family members filling important management roles and holding important shareholdings. As a consequence, these institutions have taken a conservative approach to risk assessment and management of reputational risk, eschewing politics and partisanship in favor of sound, strategic, and transparent banking and regulatory practices.

The ABL embraces a western-oriented democratic and cooperative culture. Every bank approved by the Central Bank has the right to become a member of the Association. All commercial and investment banks operating in Lebanon, including foreign banks, are members of the Association with equal rights and obligations. Representative offices of foreign banks also may participate, as Associate members, in its activities.

The Association aims to achieve the following objectives:

A. Strengthening cooperation among member banks for the higher interest of the sector.
B. Representing the profession and defending the collective interests of the banking sector.
C. Highlighting the fundamental role of banks in upholding the national economy.
D. Providing an important share of the national economy's financing needs required to promote growth.
E. Working with bank regulators and enforcement authorities to promulgate the legislation and prepare and develop regulations necessary to enhance the banking profession.
F. Representing the banking sector to the local and foreign public media.
G. Enhancing the performance of banks by improving the competencies of human resources in this sector, to guarantee the stability of the labor force and ensure the joint interests for all member banks.
H. Endeavoring to consolidate cooperation with banks in other countries.

The Association carries out a number of activities throughout the year. These include sponsoring training sessions with banks and other financial institutions around the country; conducting analyses and preparing written reports regarding the banking sector's activities, practices, and structures; and meeting with the local and foreign regulators and lawmakers regarding developments in the banking community. During 2011, the training activities focused on 30 different topics and attracted 2581 participants. There were 27 sessions on fighting money laundering.

During the last fifty years, Lebanon, the Middle East region, and the world have witnessed many economic and political crises. Yet despite global and local turmoil in the international banking sector, the Lebanese banking sector has served, and continues to serve, as a model of stability and resistance to political and economic challenges as it endeavors to keep up with evolving international standards. To that end, the Association continues to work closely with bank regulatory and enforcement authorities locally and in the countries where it has correspondent banking relationships with the goal of preserving the rights of shareholders, depositors and the national economic interests of Lebanon.

Achievements & Challenges of The Lebanese Banking Sector

Achievements & Challenges of the Lebanese Banking Sector

For most of the modern era, the Lebanese economy has had a global presence, conducting significant trade and financial transactions with private and public partners on every continent. The Lebanese banking sector has been a stable and sound participant in both the domestic and international economy, demonstrating a history of openness, regulatory prudence, a commitment to meeting international standards and best practices, and the absence of restrictions on capital flows and foreign exchange transactions. It has served as an essential source of economic and political stability in Lebanon, carrying out public functions even when the state itself lacked the resources or the political ability.

Lebanon has long been recognized as a reliable center for banking activities in the Middle East and North Africa ("MENA") region. It possesses one of the region's most sophisticated financial infrastructures, capable of providing sophisticated banking services to customers throughout the world. Banking represents a sizeable sector of the Lebanese economy, approximately 6.2%. As a result, the banking community has taken a proactive and leading role in self-policing and promoting its stability and sustainability. Of the ABL's 71 member banks, 12 are foreign owned; 12 of Lebanon's commercial banks have significant foreign ownership.[1]

The ABL banks transact business with approximately 306 foreign correspondent banks, including U.S. and European banks, located in 111 cities around the world.[2] They cooperate with those correspondent banks on the same principles, rules and controls, applying international standards and procedures, especially in the areas of anti-money laundering, economic sanctions compliance and counter-terrorism financing. International openness is reflected in the global reach of Lebanese banks. There are currently 17 Lebanese banks in 31 countries around the world operating as many as 237 financial and banking units in these countries. Close to 20% of their total assets are held in those locations.[3]

In recent years, the banking system has encountered criticism and heightened scrutiny for alleged deficiencies in its regulatory, anti-money laundering and anti-terrorism financing practices. The Lebanese government, the Central Bank and the ABL have responded by working to improve the legal regime – enacting new laws, establishing new institutions, developing new regulations, and implementing higher standards of industry practice. The Lebanese banking system has made great strides to strengthen its compliance with international anti-money laundering and counter-terrorism financing standards. It is motivated both by the desire to maintain its legitimacy in the international community, in particular with its corresponding banks, and to reassure its depositors (largely Lebanese citizens in the country and from the Diaspora), that the security of their funds will not be jeopardized by inadequate monitoring and compliance practices.

1 List of Categories of Banks, Association of Banks in Lebanon (ABL).
2 ALMANAC of Banks in Lebanon 2012, ABL.
3 Compiled by ABL from Annual Reports and other publications of Banks. *See also* Association of Banks in Lebanon, "Lebanese Banking Sector: Main Characteristics", http://www.abl.org.lb/subPage.aspx?pageid=360.

In the last decade, Lebanon's legislature has passed a number of laws surrounding anti-money laundering and counter-terrorism financing practices. As the legislative process tends to progress slowly, the Central Bank has responded by taking the initiative to issue circulars and regulations to address urgent issues. Guidance from the BDL is often issued before the laws themselves are enacted. Latest important circulars include, for example, Basic Circular No. 126, issued on April 5, 2012, which requires Lebanese banks to implement strict risk-based Know-Your-Customer methodologies for vetting customers' identities, particularly in respect to cross-border transactions. It also requires the banks to be fully informed of the laws and regulations that govern correspondent banks abroad, and to transact business in accordance with such laws, regulations and procedures adopted by international legal organizations or by the sovereign authorities in the correspondents' home countries.[4]

Over the years, Lebanese banks have enhanced their compliance with international anti-money laundering and counter terrorist finance standards, earning it recognition from the international community as a leading member of the MENA region on banking regulation and anti-money laundering compliance. To that end, it has also demonstrated to the international community its serious commitment to AML best practices, becoming a signatory to important multilateral conventions and participating as an active member in such international bodies as the Middle East & North Africa Financial Action Task Force ("MENAFATF"). Lebanon's efforts are ongoing to meet new challenges presented by evolving international standards.

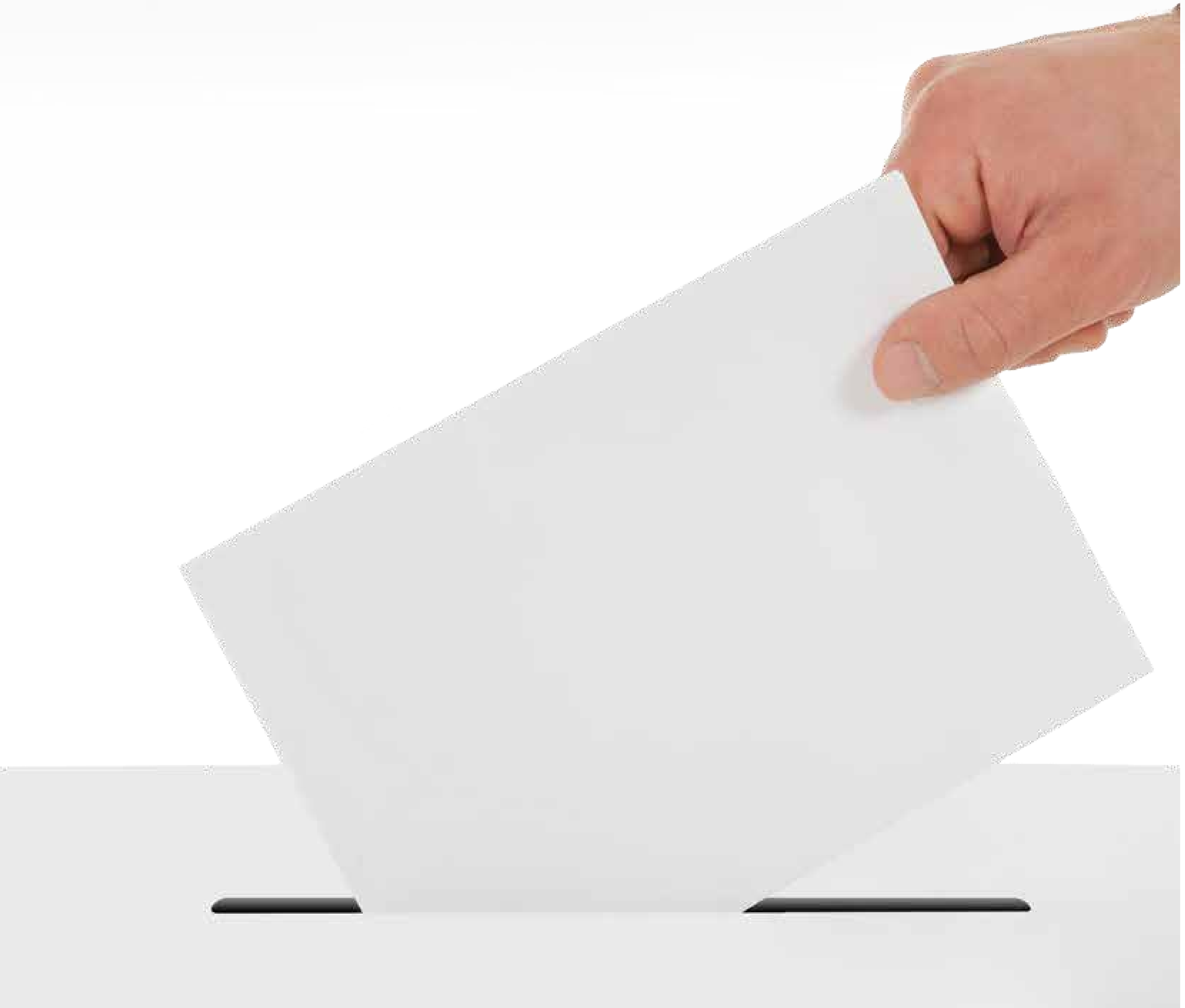
Several key points must be understood about the current status of Lebanon's banking sector, and the environment that it operates in:

I. Lebanon's political institutions and culture are conducive to a transparent and independent banking sector;
II. The Lebanese economy has functioned reasonably well, and despite the many political challenges it faces, it has been able to support a prosperous banking sector;
III. Lebanon's regulatory regime for anti-money laundering and counter-terrorism financing is comprehensive, rigorous, and well-developed, and is recognized as such, despite misconceptions that the country's banking secrecy law undermines the government's ability to identify and confront illicit activities.

This information circular will address each of these points. The considerable efforts and numerous achievements of Lebanon's banking sector over the last twelve years should not go unrecognized nor should they be undermined by questions about its continued commitment to combating money laundering and terrorist financing. While the banking community remains vigilant in light of the regional geo-political context, it acknowledges that in the continuously developing process of compliance requirements, there is always room for improvement. To achieve this goal it is making considerable internal domestic efforts with assistance provided by the insight, participation, and tools of the international financial community. Its record of the last decade has shown that the Lebanese banking community has been and remains committed to strengthening domestic institutions and to conforming banking practices with international norms.

4 http://www.bdl.gov.lb/circ/circpdf/126_en.pdf

The Lebanese Political System
& the Banking Sector



I. The Lebanese Political System & the Banking Sector

A.Political Structure

Lebanon is a constitutional democracy, comprised of three independent branches, the executive, judiciary, and legislative, which adheres to the principle of separation of powers. Its roots in this form of governance precede the 1975-1990 civil war. The civil war and the 2006 war have wreaked significant havoc on the country's institutions. But recovery has been possible because of its sound constitutional framework and political infrastructure. It is recognized as a financial, legal, judicial and political standout in the Middle East region. It has developed and maintains relationships with many foreign governments and multilateral bodies. As a result it has been able to garner the commitment of resources necessary to advance its redevelopment.[5]

B.Political Culture, Regional Challenges & the Banking Sector

Throughout its history, largely because of Lebanon's geographical location and demographic profile, its principles and values have come under threat.[6] While Lebanon is a uniquely diverse society, with a population comprised of Christians, Muslims, and other members of the region's minority groups, and has faced external and internal threats, its banking sector has made a conscious choice to preserve its existence and health by striving to follow the highest international standards. It has adopted the premise that it must follow international best practices in order to safeguard the sector as a whole and its shareholders' and depositors' funds.

5 See Congressional Service Report, "Lebanon: Background & U.S. Relations", February 2011, page 2, http://www.fas.org/sgp/crs/mideast/R40054.pdf. It states, "The United States and Lebanon have historically enjoyed a good relationship due in part to cultural and religious ties; the democratic character of the state; a large, Lebanese-American community in the United States; and the pro-western orientation of Lebanon, particularly during the cold war."; 'Where We Work: Lebanon", United States Agency for International Development, http://usaid.gov/where-we-work/middle-east/lebanon ("USAID remains committed to a sovereign, stable, democratic and economically viable Lebanon at peace with its neighbors."); "Republic of Lebanon", European External Action Service, http://www.eeas.europa.eu/lebanon/index_en.htm ("The EU seeks to help Lebanon develop into a stable, democratic, politically open and economically strong neighbor.").
6 Adams-Schmidt, D., 'A Democracy in Arab World', New York Times, October 20, 1968. The author characterizes Lebanon as : 'the Arab world's only working democracy in the Western parliamentary sense'.

The Lebanese Economy
& the Role of Banking Sector

II. The Lebanese Economy & the Role of Banking Sector

A. Economic Growth

Lebanon has a small, open, free market economy with a laissez-faire commercial tradition, with a government that has long supported foreign investment. The largest sectors of this service-driven economy are tourism and banking.[7] Long a proponent of free trade and liberal investment policies, Lebanon has historically imposed few restrictions on foreign exchange transactions or on the movement of capital and financial assets into or out of the country – policies that reflect its aims of encouraging private sector development and promoting foreign direct investment with no restriction on capital repatriation by foreign investors.

Between 2002 and 2012, the Lebanese economy saw strong economic growth, with real output growing at an average rate of 5.1%. From 2007 through 2010 Lebanon saw exceptionally strong economic growth with real output growing at an average rate of 8.25%. Factors that were the principle source of this rapid economic growth were: post-war reconstruction spending following the July 2006 war; the fast rise in regional oil revenue, which generated abundant liquidity; and renewed confidence following the 2008 Doha agreement[8] and the election of a new president; the formation of a national unity government; and the restoration of legislative activity.

These factors created a favorable business climate by reducing structural uncertainties and thereby fueling the inflow of foreign funds and increasing aggregate demand. According to various International Monetary Fund Article IV Consultation Reports for Lebanon,[9] retail and wholesale trade, tourism, construction and real estate were the key factors behind this rapid growth, accounting for more than half of GDP.

7 *See* U.S. Central Intelligence Agency, World Fact Book (2012), https://www.cia.gov/library/publications/the-world-factbook/geos/le.html.
8 The Doha Agreement on the Outcome of the Meeting of the Lebanese National Dialogue, dated 21 May 2008, available at http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Lebanon%20S2008392.pdf.
9 IMF Country Report No. 07/382, Staff Report for the 2007 Article IV Consultation (December 2007), http://www.imf.org/external/pubs/ft/scr/2007/cr07382.pdf; IMF Country Report No. 09/131, Staff Report for the 2009 Article IV Consultation and Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance (April 2009), http://www.imf.org/external/pubs/ft/scr/2009/cr09131.pdf; IMF Country Report No 10/306, Staff Report for the 2010 Article IV Consultation (October 2010), http://www.imf.org/external/pubs/ft/scr/2010/cr10306.pdf, and IMF Country Report No 12/39, Staff Report for the 2011 Article IV Consultation (February 2012), http://www.imf.org/external/pubs/ft/scr/2012/cr1239.pdf.

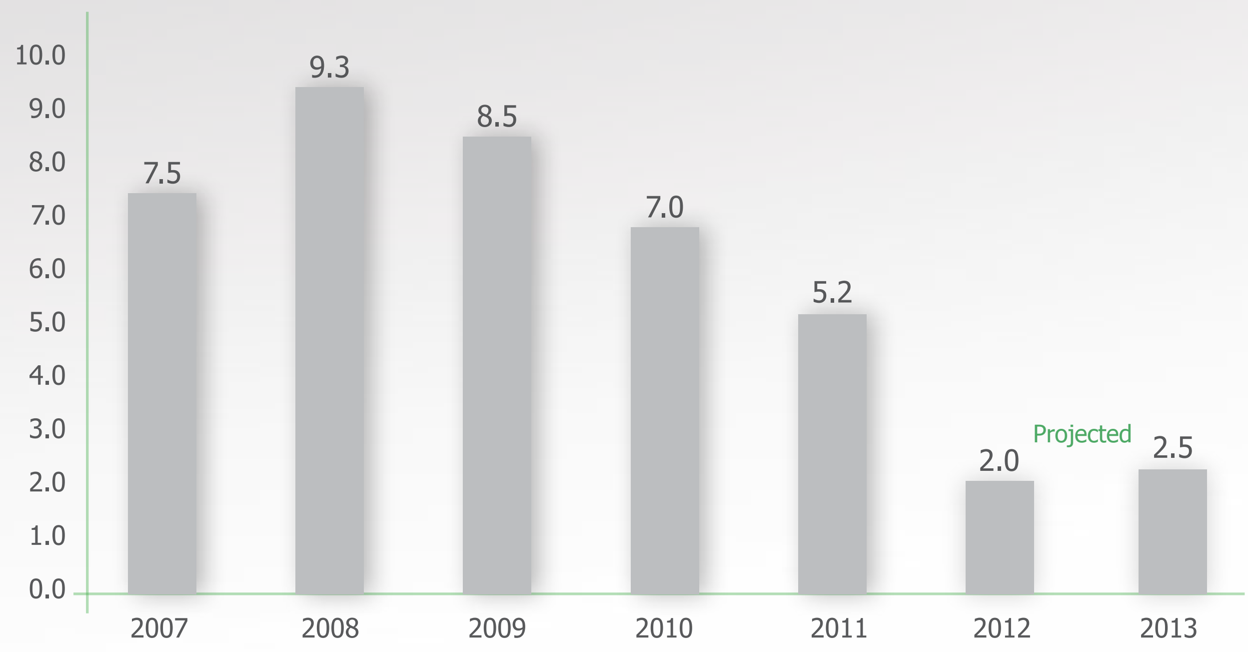
It also has widely been acknowledged that the Lebanese economy has managed to thrive during the economic developments of the last several years, in particular the recent global financial downturn, because of its prudent and sound macroeconomic policy and a favorable political environment.[10] Members of the Lebanese Diaspora redirected their assets to local banks and other domestic financial institutions, viewed as safe havens in the midst of rising international uncertainty and declining financial markets, prices and rates.[11] Lebanon managed to achieve these positive results despite certain significant macroeconomic vulnerabilities, primarily its relatively large public debt. As the IMF noted, in 2010, Lebanon "bucked international trends during the global financial crisis, maintaining strong growth momentum despite the country's large underlying vulnerabilities."[12] The banking sector, in particular, was able to insulate itself by:

1. Consistently maintaining relatively high levels of liquidity in foreign currencies, given the high dollarization in the balance sheets and the absence of a lender of last resort in foreign currencies. High liquidity has played a substantial role in safeguarding the sector by absorbing adverse recurrent shocks and protecting depositors and shareholders;
2. Relying mainly on deposits and not on the financial and credit markets in other countries, as a primary source of funds. Deposits represent 84% of the banks' total assets and liabilities.[13]

The IMF has noted that despite the Lebanese financial sector's ability to remain stable and prosper during the worst economic times, confidence in the economic sector, driven by domestic and regional political uncertainty, has declined sharply. As a result the banking sector has intervened on behalf of the state, demanding policies and practices to reinvigorate confidence in the economy.[14]

Domestic political uncertainty and regional unrest have had a significant impact on Lebanon's economic activity in 2011 and 2012. This has caused the deceleration of the growth rate to an estimated average of 3.6%, which is still positive in relation to the remainder of the MENA region. The outlook for the coming years remains optimistic with moderate growth prospects of 3.5% over the next several years (2013-2015) depending on regional stability and the domestic operating environment.[15]

Chart 1 - Lebanon: Real GDP Growth Rate (%)



Sources: Economic Accounts of Lebanon (2007-2011); IMF (2012-2013)

Chart 2 - Regional Real GDP Growth Comparison

Sources: IMF, IIF, National Accounts , Samba

10 Joint Staff Working Paper, "Implementation of the European Neighborhood Policy in 2010 Country report: Lebanon", 25 May 2011, page 2, http://eeas.europa.eu/delegations/lebanon/documents/news/20110527_1_en.pdf.
11 See The World Bank Group, 'The Financial Crisis: Impact on the Middle East', Development Horizons, page 6, Quarters 1/2 (2009), http://siteresources.worldbank.org/INTLEBANON/News%20and%20Events/22279161/WB_newsletter_english_lowres.pdf.
12 IMF Country Report No 10/306, Staff Report for the 2010 Article IV Consultation (October 2010), page 3, http://www.imf.org/external/pubs/ft/scr/2010/cr10306.pdf.
13 Lebanese banks have been highly conservative, operating fairly strictly within the regulations and ceilings they have set for themselves and by monetary and supervisory authorities. Hence, it is arguable that the banks have avoided the worst of the economic crisis by applying a conservative policy toward investment in asset-backed securities and financial derivatives (despite the fact that many of these instruments were rated as investment grade and met all the conditions set by domestic regulators).
14 IMF Country Report No 10/306, Staff Report for the 2010 Article IV Consultation (October 2010), pages 4, 14, http://www.imf.org/external/pubs/ft/scr/2010/cr10306.pdf.
15 World Economic Outlook Database, IMF, April 2012.

B. Growth Sectors

The service sector has been the central dimension of growth in Lebanon. It likely will continue in this role. A March 2011 study published by the IMF representative office in Lebanon[16] entitled "Lebanon: Real GDP Growth Analysis, 1997-2009," revealed that between 1997 and 2009, growth was mainly driven by 3 sectors: retail and wholesale trade (14.2% contribution to real GDP growth), telecommunications (9.4%) and banking (5.3%). Government spending and construction also contributed shares of 4.2% and 4.0%, respectively.

Chart 3 - Contribution to Real GDP Growth, 1998-2009 (%)

Source: Mottu, E, and Nakhle, N . (2011), IMF

Lebanon's economy is interconnected with other economies. For the period from 2008 to 2012 imports from Europe comprised about 36% of total imports into Lebanon. Imports from the GCC and other Arab countries comprised about 14%. The shares of U.S., Chinese, and Turkish imports were 11%, 9%, and 4% respectively. Imports from Iran comprised only about 0.22% or USD 40 million.[17]

Lebanon has historically had strong economic and financial links with the GCC countries, particularly with regard to remittances, exports, tourism and foreign direct investment. Lebanon receives around one third of all GCC investments from MENA countries. Gulf investors are thought to hold a large number of the high value deposits at Lebanese banks. The Arab countries constituted the largest market for Lebanese exports, with 21% of exports going to the Gulf Cooperation Council ("GCC") countries and 21% going to the other Arab countries. Europe accounted for 25% of the Lebanese export market, while Turkey accounted for 5%.[18] Lebanese had exported goods to Iran, at an average of about 1.1%, but this fell to 0.1% by 2012, about USD 5 million.

16 Mottu, E, and Nakhle, N. (2011), 'Lebanon: Real GDP Growth Analysis, 1997-2009', IMF Resident Representative Office in Lebanon, http://www.imf.org/external/country/LBN/rr/2011/030311.pdf.
17 Lebanese Customs. www.customs.gov.lb/customs/trade_statistics.
18 Lebanese Customs. www.customs.gov.lb/customs/trade_statistics.

C. Capital Asset Inflows, Foreign Direct Investment and Cash Remittances

Large financial inflows to Lebanon are structural and do not relate to specific periods or eras although certain events can amplify or reduce their scale. They have always existed even before the civil strife (1975-1990). During the golden era between 1960 and 1974, such inflows were around 36% of GDP and contributed to deposit growth of banks of around 20% annually.[19]

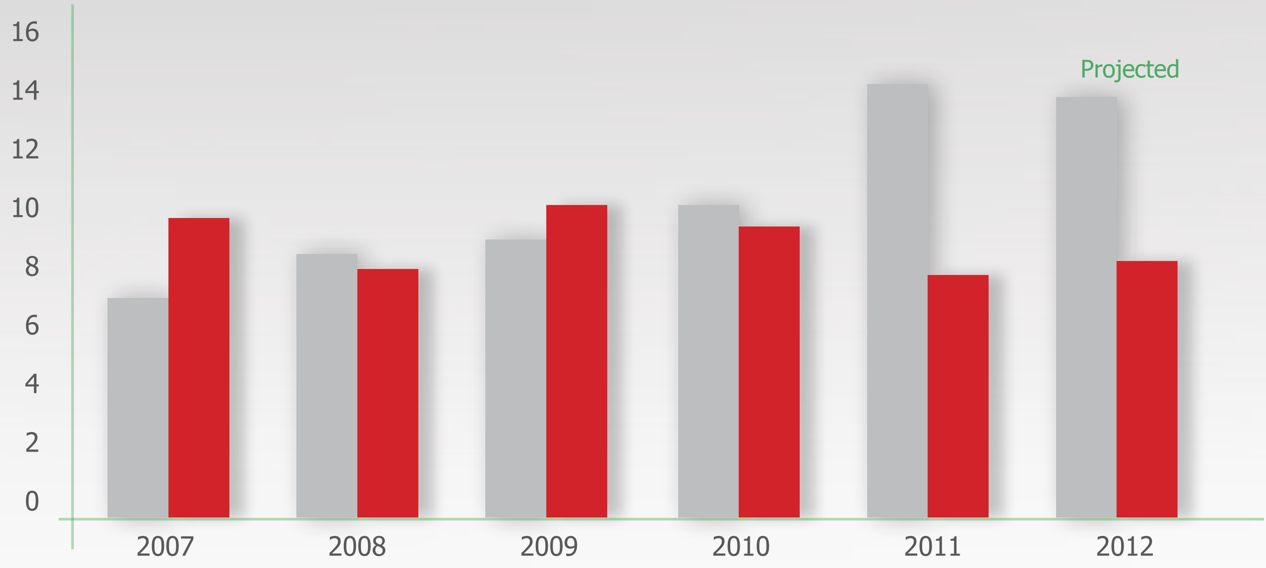
Lebanon has a large and diversified Diaspora, which materially started with the First World War and continues, with a large number of Lebanese citizens and Lebanese dissidents residing abroad greatly exceeding the local population in numbers. A very large population of Lebanese professionals works in the main regional and international commercial and financial centers with successful careers in finance and banking, marketing and advertising, and legal and consulting services. This is a leading source of capital flow into the country. A recent World Bank paper entitled "Using Lebanon's Large Capital Inflows to Foster Sustainable Long-Term Growth",[20] states that Lebanon has been consistently attracting inflows from the region over the past few decades. These inflows are related to regional oil wealth, the attractiveness of Lebanon's real estate assets, the perception of the Lebanese banking sector as safe haven in times of crises, and the existence of a large Lebanese Diaspora. The paper argues that inflows to Lebanon witnessed a strong acceleration in the years 2007-2010 due to increases in oil prices followed by a strong crisis of confidence in the international and regional financial and capital markets. It also finds that oil price is a key determinant of foreign inflows as well as the accumulation of foreign currency reserves.

The spread between domestic and international interest rates, the exchange rate regime and economic dollarization also contribute to foreign financial flows into Lebanon. Higher interest rates in Lebanon vis-à-vis international rates, reflecting risk premiums of which currency risk, provide the ability to hold assets in LBP and FC at relatively higher rates. This profit opportunity is enhanced by the de facto dollar peg conveying stability and open, unrestricted convertibility between the local currency and foreign currencies, thereby stimulating foreign financial inflows. The successful exchange rate regime adopted in 1993 allows buying and selling of foreign currency at any time and the movement of capital in and out freely. Dollarization is considered a confidence indicator. It allows the holding of accounts in all currencies as stores of value additionally promoting capital flows.

Although Lebanon has traditionally suffered from a relatively high current account deficit, it has largely been financed by foreign direct investment. According to UNCTAD World Investment Reports, inward foreign direct investment by the end of 2011 (for the period between 1980 and 2011), had reached USD 40,645 million.[21] The Lebanese current account balance is chiefly influenced by a relatively outsized trade balance deficit given the heavy reliance on imports for consumption and investment in a highly open economy. The current account deficit reached a peak 14% of GDP in 2011 against an average of 9.2% for the previous 4 years, a result closely linked to rising food and commodity prices (mainly oil).[22] However, this current account deficit is almost financed by foreign direct investment into Lebanon which accounted for 9.7 % of GDP for the period 2009-2011.[23]

19 Database on inflows and banking sector aggregates compiled by Bank Audi Research Department
20 World Bank, 'Using Lebanon's Large Capital Inflows to Foster Sustainable Long-Term Growth', January 2012, https://openknowledge.worldbank.org/handle/10986/2727.
21 United Nations Conference on Trade and Development, World Investment Report, Country Fact Sheet for Lebanon (2012), *available at* http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx.
22 IMF country report No 12/39, February 2012.
23 IMF country report No 12/39, February 2012.

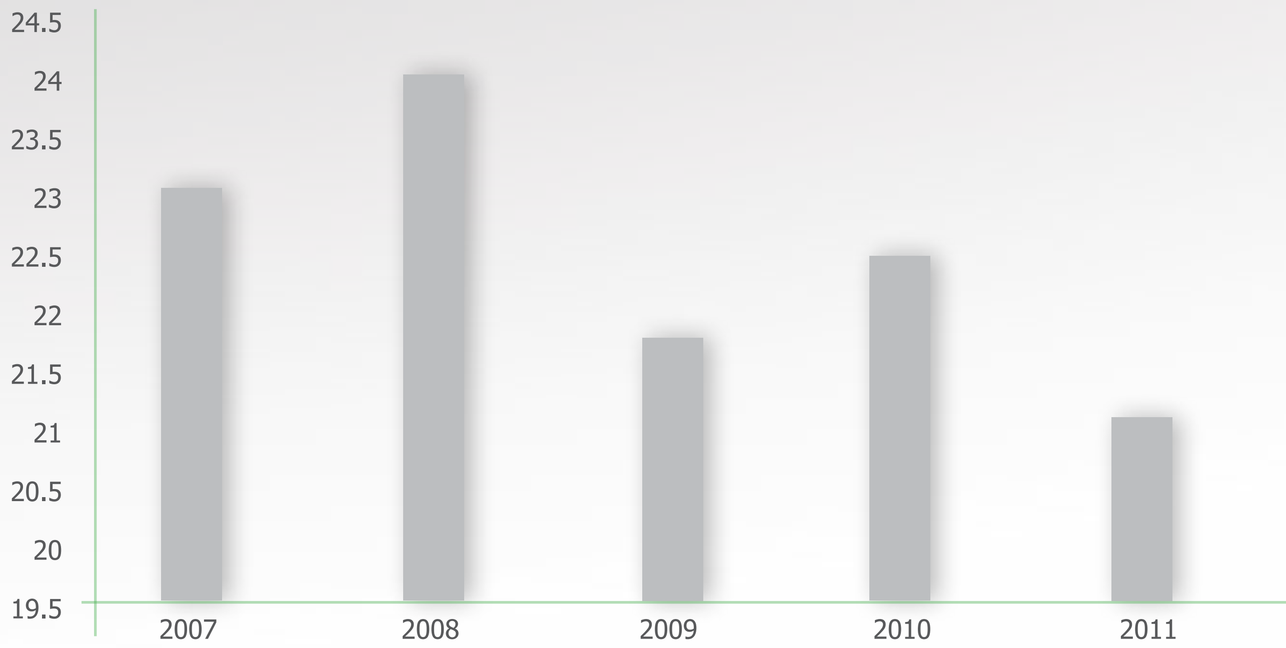
Chart 4 - Lebanon: Current Account Defict and Incoming FDI as Percent of GDP



Source: IMF

Current account deficit FDI

Chart 5 - Remittances Inflows as a percent of GDP



Source: IMF

The main source of foreign direct investment into Lebanon is Arab countries, mostly GCC countries. The GCC share of total FDI into Lebanon fluctuates but over the past several years (2002-2007), it has averaged around 60% of total FDI. More than half of FDI has been in real estate. According to the IMF's latest country report on Lebanon, that figure reached approximately 90%, with most funds coming from Kuwait, Qatar, Saudi Arabia and the UAE.[24] The remaining share is attributed to Europe (France, Germany, Italy and Netherland) and the USA.

Remittances to Lebanon as a share of GDP are among the highest in the world according to the IMF country report No 09/131.[25] This reflects the size of Lebanese Diaspora as well as shifting global trends. Remittances from largely well-educated professional Lebanese people residing in the GCC amount to approximately half of total gross remittances to Lebanon. 54% of remittances to Lebanon originated from the GCC, and another 16% from Australia, the US and Canada. The remaining comes mostly from Europe and Africa. Remittances inflows have averaged 23% of GDP over the last five years. Remittances inflows net of remittance outflows ranged between USD 3 - 3.5 billion annually over the last five years and constituted around 8.8% of GDP for the same period.[26]

The large number of emigrants is the chief determinant of the volume of remittances. However other factors, such as foreign business cycle conditions and currency exchange rates also contribute to this phenomenon. In a study on emigration from Lebanon between 1992 and 2007, conducted by a leading Lebanese education institution, it was found that the number of emigrants during this period was close to half a million and that around 50% of households in Lebanon have at least one family member who has emigrated during the covered period. Around 77% of emigrants are between 18 and 35 years old, the bulk consisting of skilled labor.[27]

24 IMF Country Report No 12/39, Staff Report for the 2011 Article IV Consultation (February 2012), page 10, http://www.imf.org/external/pubs/ft/scr/2012/cr1239.pdf. The Arab Investment and Export Credit Guarantee Corporation reveals that 92.7% of the total stock of FDI into Lebanon from all Arab Countries between 1985 and 2009 is attributed to GCC.
25 IMF Country Report No. 07/382, Staff Report for the 2007 Article IV Consultation (December 2007), http://www.imf.org/external/pubs/ft/scr/2007/cr07382.pdf.
26 IMF Country Report No. 07/382, Staff Report for the 2007 Article IV Consultation (December 2007), http://www.imf.org/external/pubs/ft/scr/2007/cr07382.pdf.

27 Kasparian, C 2009, L'emigration des jeunes Libanais et leurs projects d'avenir, Observatoire de la Realite Socio-Economique, Universite Saint-Joseph, Presses de l'Universite Saint-Joseph, vol 2.

D. Public Debt

Lebanon came out of the civil war in 1991 with a debt burden of around 50% of GDP. Reconstruction and conciliation costs and the rebuilding of infrastructure contributed to the steady increase in the country's debt burden in the following decade. Soft loan financing from bilateral and multilateral sources such as the European Investment Bank, the World Bank, Abu-Dhabi Fund for Development, L'Agence Française de Développement, Arab Fund for Economic & Social Development and others have been complemented with financing through domestic banks and others. Soon after this process of reconstruction came to completion, efforts intensified to address the debt overhang manifested by the different programs presented at Paris II and III International Conferences for Support to Lebanon to contain the budget deficit and the public debt and maintain financial stability.

Loans and Grants Ratified, Signed and Approved

Distribution by funding source, million USD 1992-2010	Value	Share%
World Bank (IDA), (IBRD)	948.27	9.84
Arab Fund for Economic & Social Development AFESD	1327.93	13.78
European Investment Bank EIB	1148.26	11.92
European Union EU	602.78	6.26
France (AFD, French protocols,…)	464.77	4.82
Islamic Corporation for the Development of the private sector IDBG	960.56	9.97
Kuwait , KFAED	1007.26	10.46
Saudi (KSA, SFD)	939.92	9.76
Qatar	327.14	3.40
Italy	559.37	5.81
Germany (KFW, GIZ)	202.18	2.10
Japan	149.01	1.55
USA (USAID, USA)	161.13	1.67
Others	835.25	8.67
Total	**9633.83**	**100.00**

Source: Council for Development and Reconstruction, Progress Reports. www.cdr.gov.lb

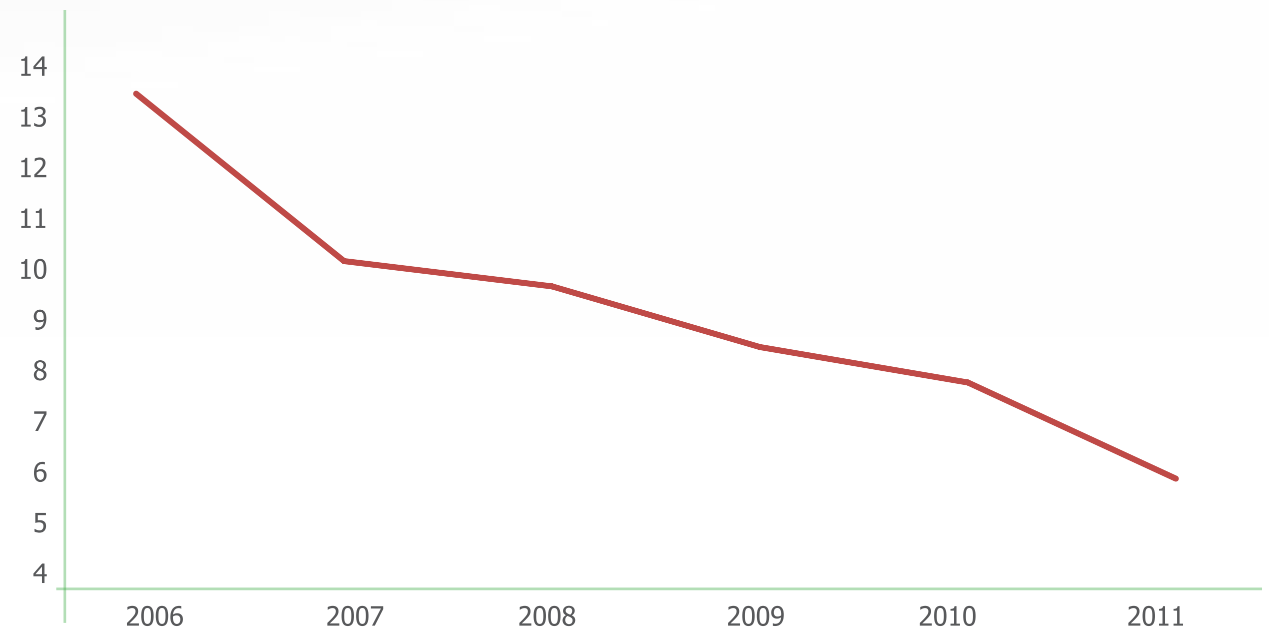
Paris II and III International Conferences for Support to Lebanon

Paris II	**USD 4.3 billion**	**Paris III**	**USD 7.5 billion**
o/w	USD 3.1 billion for debt restructuring USD 1.3 billion soft loans	o/w	USD 5.9 billion signed USD 3.7 billion received

Source: Lebanese Ministry of Finance, Reports related to Paris II and Paris III, Paris II and Paris III conference documents. www.finance.gov.lb

Lebanon has succeeded in the last few years in sharply reducing its debt burden largely because the debt service and other government primary expenses retreated in relation to a growing GDP. The decline in the deficit to GDP contributed to the reduction of debt as a percentage of Output. The Lebanese government has committed to cut further the debt-to-GDP ratio over the next several years. Given strong economic growth and sizeable primary surpluses, the (Gross) debt to GDP ratio fell from 179.9% in 2006 to 134.8% in 2011.[28] The preliminary estimate of the debt to GDP ratio for the year 2012 is around 133.5%. The IMF expects that under a baseline scenario, involving no policy change, this ratio would stay at around 130% in the medium term but could fall below 100% of GDP by 2020 under a reform scenario targeting improvement in government revenues and management and rationalization of expenditures. Yet this debt to GDP ratio is not as alarming as it seems given that a large portion of the debt is held by the central bank and other public sector institutions, implying better sustainability. In fact, market debt to GDP (debt held by the market), dropped from 114.3 percent in 2006 to 83.7 percent in 2011. The debt service to GDP fell from 13.5% to 10.1% and the deficit-to-GDP retreated from 13.5% to 5.9%. The primary surplus to GDP averaged approximately 3% for the period 2006-2011.[29]

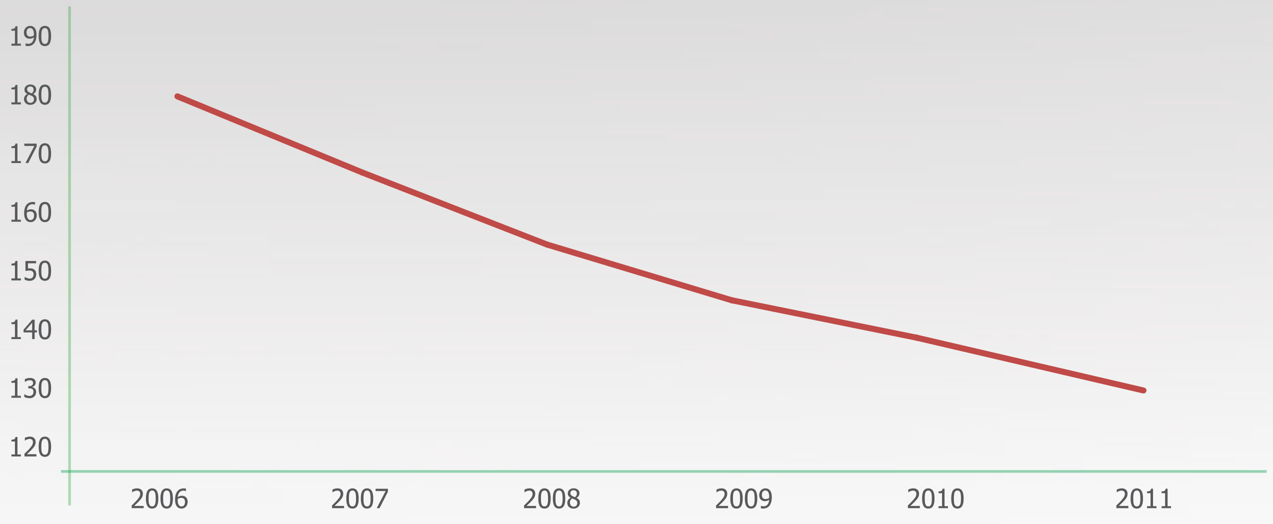
Chart 7 - Lebanon: Public Deficit/GDP (%)



Sources: Ministry of Finance , Economic Accounts of Lebanon

28 IMF Country Report No 12/39, Staff Report for the 2011 Article IV Consultation (February 2012), 40, http://www.imf.org/external/pubs/ft/scr/2012/cr1239.pdf.
29 IMF Country Report No 12/39, Staff Report for the 2011 Article IV Consultation (February 2012), http://www.imf.org/external/pubs/ft/scr/2012/cr1239.pdf.

Chart 8 - Lebanon: Public Debt/GDP (%)



Sources: BDL, Economic Accounts of Lebanon

Though this gross debt-to-GDP ratio remains among the highest in the world, the underlying elements of risk and macroeconomic variability are considered low, explaining debt sustainability. The share of non-traded domestic currency debt (with no secondary market) has recently been rising. It is currently 58% of the total, with an average maturity of 3 years. It is held fairly evenly between the market (mainly commercial banks) and non-market institutions. The share of foreign currency debt is 42% with an average maturity of 6 years, out of which 62% is traded and held by investors, not by bilateral and multilateral parties.[30] Lebanese government Eurobonds held by investors represent 30% of total debt and 40% of GDP. The total debt held by non-residents is low, approximately 12% of total debt.[31]

E. Interest Rates

Since Lebanon's currency is pegged to the U.S. dollar, theoretically monetary authorities have little influence in determining interest rates. Lebanese interest rates normally follow foreign interest rates, especially U.S. rates. They are affected by international benchmark rates. This is demonstrated by the declining interest rates in Lebanon following the decline of the Libor short rate after the global financial crisis. However, local monetary authorities can affect the timing of the variation in interest rates and the extent to which these rates can move.

To a certain limited extent, the Central Bank can keep interest rates low by buying government treasury bills and Eurobonds at a fixed rate. Thus, the Central Bank is offsetting any decline in the appetite of banks to buy domestic treasury bills by intervening in the primary market to buy these bills. So, in one respect, the rates on Eurobonds will follow the rates on the Treasury bills.

One of the main reasons why Lebanon is paying a lower interest rate than what is suggested by its rating, especially when the BOP is negative and the political situation is precarious, is because the Central Bank is bearing the cost by buying government bills at a low rate and selling CDs to banks at a higher rate.

30 IMF Country Report No 12/39, Staff Report for the 2011 Article IV Consultation (February 2012), 39, http://www.imf.org/external/pubs/ft/scr/2012/cr1239.pdf.
31 Calculated by ABL Research Department based on primary data published in BDL monthly and Quarterly bulletins. www.bdl.gov.lb .

F. Securities

The demand by banks for Lebanese sovereign debt is part of their asset management plan aimed at securing adequate liquidity and earnings. Investment in securities is central to the banking business and should not be considered a sovereign money laundering scheme. Opportunities for investment in Lebanon are limited by an underdeveloped stock exchange and no corporate bond market. Investments opportunities outside Lebanon are constrained by Central Bank regulations and by the conservative policies and culture of the Lebanese banks. Thus, Lebanese banks investment diversification opportunities are limited primarily to Eurobonds, Treasury bills, Central Bank CDs, and loans to the private sector.

Sovereign bonds held by domestic banks do not exceed 16% of total deposits of foreign currencies.[32] These bonds trade at tight spreads when risk perception is low and at large spreads when risk is perceived as high. Government bond spreads reflect the risk perception of bondholders (mainly domestic banks) who are willing to take this risk. They are well-acquainted with the risk, and do not exit at the first sign of unrest. Credit default swaps ("CDS") spreads reveal the risk assessment of guaranteeing parties, reputable and highly regarded international banks and institutions such as Deutsche Bank and HSBC. Accordingly, government bond spreads and CDS spreads may differ or intersect depending on the appraisal of the risk.

The yield on Lebanese sovereign bonds is partly tied to the sovereign credit rating by international credit rating agencies such as Moody's, Standard & Poor's and Fitch. There is no one-to-one relation in the sense that sovereign bonds of countries with same maturity and rating should have the same yield. The cost of debt is a function of a number of factors: credit risk, liquidity risk, inflation risk, and exchange rate risk. These tend to differ from one country to another. Though rating agencies may take into account all of these factors in allocating a rating to a country, the weighting and assessment of each factor may differ between foreign individual and institutional investors, domestic banks and others. Among other factors, the fixed exchange rate in Lebanon and the relative price stability could be highly weighted by banks and others and thus contribute to lowering the spread and yield on the Lebanese government securities in comparison to other situations where such conditions may not apply.

32 The Consolidated Balance Sheet of Banks, BDL monthly bulletins. www.bdl.gov.lb.

Banking as a Crucial Sector of the Lebanese Economy

Banks are an essential part of the Lebanese economy, playing a positive role in monetary policy and ensuring stability and consistency even where the state is unable to do so.[33] For example, Lebanese commercial banks hold more than 50% of the country's public debt.[34] The banks are widely understood to be an essential dimension of Lebanon's efforts to regain the economic stability and momentum that have been lost in successive years because of internal and regional upheaval.

A. The Usage of Cash in a Developing Economy

Historically, the MENA countries have been known as being economies based on the usage of cash in most domestic transactions. However, the trend now is moving toward the usage of non-cash banking instruments and operations. Lebanon has been a leader in the region in this regard.

Lebanese banks take the subject of cash deposits very seriously and apply the requisite standards consistent with international principles. Lebanon's banking system initiatives and compliance with the anti-money laundering and counter-terrorism financing have been an on-going process. In 1997, banks in Lebanon signed a Due Diligence Convention on the Commitment by Banks to Combat the Laundering of Illegal Drug-Trade Funds.[35] However, movement of cash into the country continues to be a concern. Thus, in March 2012, three key draft laws approved by the Council of Ministers were submitted to Parliament for passage. They are: amendments to anti- money laundering laws; promotion of the exchange of tax information; and a requirement for the declaration at the border of incoming and outgoing cross-border funds. The last of these efforts addresses the ninth of the FATF recommendations, which states that every government should take measures to track cross-border cash transfers. These proposals are expected to be enacted into law in the near future. The ABL has voiced strong support for all three proposals and lobbied with public officials for prompt implementation.

Within the banking industry's practices, clients of Lebanese banks are required to sign and complete a cash transaction slip (CTS), disclosing: the amount involved, information on the purpose of the transaction, the source of the funds, and the beneficial owner for all cash transactions that individually or in the aggregate exceed USD10,000. Banks are required to keep such reports for at least five years and subject to inspections by the SIC.

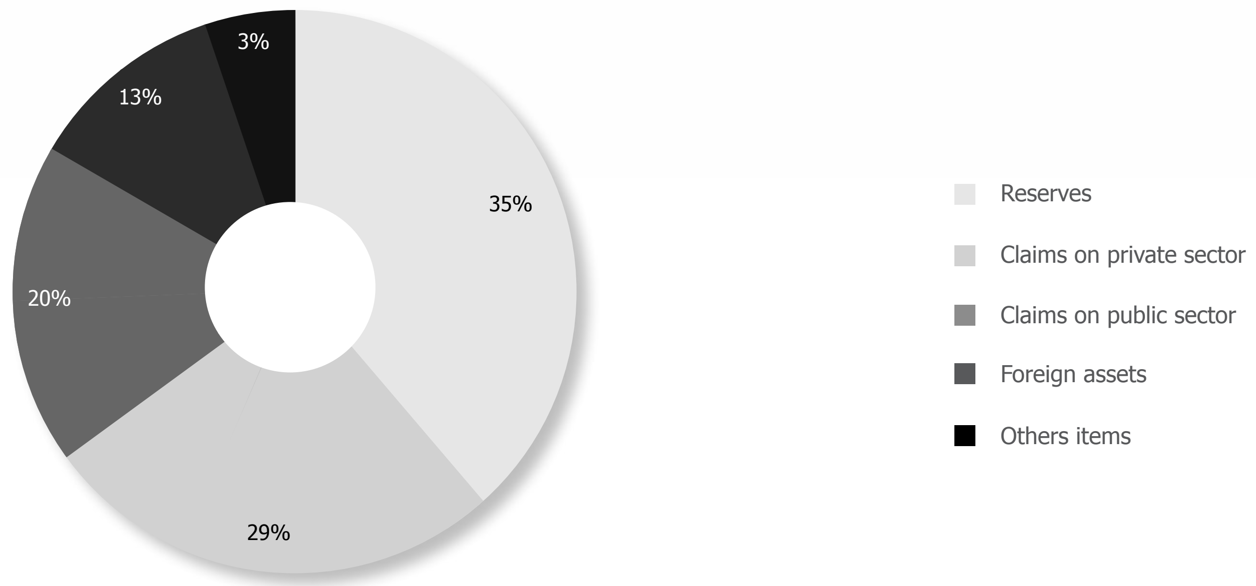
33 Zreika, M. and Elkanj, N., 'Banking Efficiency in Lebanon: An Empirical Investigation', J. of Social Sciences 7(2): 199-201 (2011).
34 Joint Staff Working Paper, "Implementation of the European Neighborhood Policy in 2010 Country report: Lebanon", 25 May 2011, http://eeas.europa.eu/delegations/lebanon/documents/news/20110527_1_en.pdf.
35 http://www.abl.org.lb/library/files/due%20diligence%20convention.pdf.

B. The Domestic Market

The growth of the money supply and deposits at banks is explained in part by domestic and external macroeconomic variables and bank specific factors. In fact, IMF Working Paper No. 09/195, "Lebanon-Determinants of Commercial Bank Deposits in a Regional Financial Center"[36], reported that domestic factors such as economic activity, prices and the interest differential between the Lebanese pound and the US dollar are significant factors affecting deposit demand. External factors, including the business cycle in advanced countries, the availability of funds from the GCC, and global financial market conditions can have an impact on deposit demand as well. Other factors cited in the study include perceived riskiness of individual banks, their liquidity buffers, loan exposure, and interest margins all of which can have a significant influence on the demand for deposits.

Banks' exposure to the public sector (government) has been on a downward path recently while credits to the private sector have been rising steadily. Claims on the public sector as a percentage of total assets reached 20% at the end of December 2012 compared to 26% at the end of 2007. Conversely, the share of claims on the private sector attained 29% of total assets against 25% for the two mentioned periods, respectively.[37] Banks in Lebanon are not allowed to invest in structured or exotic products, a primary factor that kept Lebanon and its banking system immune from the repercussions of the global financial crisis.

Chart 9 - Commercial Banks Assets Structure in %, (end of December 2012)



Source: BDL

Some banks are investing in the government Eurobonds while rates are well below what is suggested by the sovereign rating. The reason is related to the narrow opportunities for investment in Lebanon as explained above.

36 Finger, H. and Hesse, H. (2009), 'Lebanon-determinants of Commercial Bank Deposits in a Regional Financial Center', IMF Working Paper WP/09/195(2009), http://www.imf.org/external/pubs/ft/wp/2009/wp09195.pdf.
37 The Consolidated Balance Sheet of Banks, BDL monthly bulletins. www.bdl.gov.lb.

C. Foreign Assets and Placements

Total foreign securities held by Lebanon's commercial banks, financial institutions, financial intermediaries, leasing companies, and insurance companies (as their own investments and those of their resident clients), increased from USD 2.4 billion in December 2006 to USD 5.6 billion in June 2012. Approximately 57% of this amount is comprised of long-term debt securities; 42% of equity securities; and 1% of short-term debt securities.

The majority of investment in equity securities is in the U.S. markets (45.7% share), followed by Switzerland (11.4%) and Bahrain (11.2%). The shares of investment in France and Saudi Arabia are 6.3 and 3.9% respectively. The banks invested in long-term debt securities, in the U.K. at 25.1%; the U.S. (13.9%), France (9.5%), the UAE (7.8%) and Qatar (4.5%).[38]

D. Cross Border Deposits and Claims

Cross border deposits increased from USD 32.1 billion at the end of December 2006 to USD 41.7 billion at the end of June 2012. The banking system's share of this total is approximately 80% (USD 33.1 billion) and that of the non-banking sector approximately 20%.[39]

External loans of cross border banks vis-à-vis Lebanon increased from USD 4.4 billion at the end of December 2006 to USD 9.5 billion at the end of June 2012. The banking system's share of the total is around 66% (USD 6.3 billion): the non-banking sector is about 34%. The majority of foreign claims of cross-border banks is attributable to European, mainly French and Swiss, banks (70%). The share of claims by US banks is 15%.[40]

E. Foreign Assets of Commercial Banks

Commercial banks' claims on nonresident banks and financial institutions are distributed according to the following share percentages: the United Kingdom (12.2); France (11.1); Germany (11.0); United States (7.5), Switzerland (7.0); UAE (6); Belgium (5.1); Turkey (4.5); and the Netherlands (4.4). Commercial banks' loans to the nonresident private sector (including placements) are identified by the following top countries: Cyprus (14.1); Syria (14); Jordan (9.5); Turkey (9.2); UAE (6.7); Australia (6.5); Saudi Arabia (5.1); and the United Kingdom (4.1).[41]

38 Portfolio Investment, BDL Quarterly Bulletins. www.bdl.gov.lb
39 BIS, Locational Banking Statistics, December 2012. www.bis.org/statistics
40 BIS, Locational Banking Statistics, December 2012. www.bis.org/statistics
41 Compiled by ABL Research Department based on information provided by banks.

F. SWIFT Transactions

The United States is the primary destination of SWIFT traffic from Lebanon, with a share of 34.5%; 11.4% with Germany; 11.2% with the United Kingdom; 7.2% with Switzerland; 5.7% with France; and 3.2% with Italy. The United States also tops all other jurisdictions with respect to SWIFT traffic received by Lebanon from other countries. Its SWIFT transactions comprise 37%, while Germany's comprises 8.6%; the United Kingdom, 7.1%; Switzerland, 6.5%; Saudi Arabia, 6.4%; France, 5.1%; UAE, 4%; Belgium, 4%; and Luxembourg, 3.7%.[42]

As the high SWIFT traffic with the United States indicates, Lebanese banks are obligated to accommodate U.S. correspondent banks by adopting the following measures: (1) only executing transactions permitted or licensed by the U.S. Treasury; (2) ensuring that they do not maintain any correspondent account for an Iranian-linked financial institution (the Swift Relationship Management Application with those financial institutions has been cancelled); and (3) ensuring that the checks drawn on the only Iranian-linked financial institution located in Lebanon are not collected by Lebanese banks and processed through the Central Bank clearing system.

The Lebanese banking system was established based on the U.S. model of a free enterprise economic system. It braces the U.S. regulatory structure, and as such, it is a leading banking hub operating on these standards in the Levant. The ABL believes this system is in line with the standards of U.S. law, including the USA Patriot Act. The prosperity of the Lebanese banking sector is necessary for regional stability and the international payments system.

42 SWIFT Watch tool.

Compliance with Anti-Money Laundering & Other Restrictions

III. Compliance with Anti-Money Laundering & Other Restrictions

A. Oversight of the Banking Sector - the Central Bank & Banking Control Commission

In the last decade, the Lebanese banking sector has been subjected to greater scrutiny. During this period it has implemented new regulatory and other procedural measures in response to such scrutiny. However, its efforts to strengthen domestic standards to meet international norms began several decades ago.

The bodies that are primarily responsible for the regulation and oversight of the Lebanese financial sector, the Central Bank, and the Banking Control Commission ("BCC"), were established in 1963 and in 1967, respectively.

The Central Bank, like the U.S. Federal Reserve Bank or the European Central Bank, is an entirely independent public body that maintains financial and administrative autonomy from the influence of private or public individuals and entities. Its funding capital is totally appropriated by the State. Its foremost duty is to fulfill "the general mission of safeguarding the national currency in order to ensure the basis for sustained social and economic growth." It is further tasked with the following obligations:

- To safeguard monetary and economic stability;
- To safeguard the soundness of the banking sector;
- To develop money and financial markets;
- To develop and regulate payment systems and instruments;
- To develop and regulate money transfer operations including electronic transfers;
- To develop and regulate the clearing and settlement operations relative to different financial and payment instruments and marketable bonds.[43]

The BCC, an independent body that works closely with the Governor of the Central Bank, exclusively supervises banks, financial institutions, money dealers, brokerage firms and leasing companies.[44] It maintains a budget that is approved by the Higher Banking Commission ("HBC") of the Central Bank.[45] Its principal duties include the periodic on- and off-site examination of those financial bodies that it supervises and the assessment of their financial soundness. It also examines whether banks and other institutions have adhered to and properly implemented relevant laws and regulations, requirements issued by the Central Bank, and international standards. The BCC has the power to impose corrective sanctions on individual banks.[46]

43 BDL: Role and Function, http://www.bdl.gov.lb/bdl/role.htm.
44 The Governor of the BDL has authority to request all reports produced by the BCC.
45 The HBC serves an enforcement purpose, imposing administrative sanctions on financial institutions, including banks, leasing companies, exchange institutions and other such bodies, that violate certain economic or financial laws, including the regulatory requirements of the BDL. It also takes enforcement measures against involvement in activities that damage the reputation of Lebanon in the field of terrorism financing. 'Banque du Liban– Commissions: Higher Banking Commission', http://www.bdl.gov.lb/bdl/HBC.htm.
46 'About BCCL / Overview', http://www.bccl.gov.lb/aboutmid1.html.

B. The Special Investigation Commission

The Lebanese Special Investigation Commission (the "SIC" or the "FIU") is a "financial intelligence unit". It serves as the "center piece" of Lebanon's anti-money laundering and counter-terrorism financing regime. While the work it conducts is related to that of the Central Bank, the SIC is an independent legal body, and therefore obligated to carry out its efforts without being under the authority of the Central Bank.

It is tasked with investigating suspicious activity that may involve money laundering, conducting financial investigations and monitoring compliance with anti-money laundering laws. The SIC receives and examines suspicious activity reports ("SARs") and decides upon the seriousness of evidence in the pursuit of anti-money laundering and terrorist financing matters. It has authority to freeze accounts determined to be implicated in such activities and exchange information with competent local or foreign authorities.

The SIC also works closely with the banking and financial community to propose anti-money laundering regulations. All banks operating in Lebanon are regularly subject to a special compliance examination audit or assessment by the SIC. It has the power to review any bank account and to grant the bank the ability to disclose information to third parties. The SIC has jurisdiction over most financial crimes, such as the violation of intellectual property rights. It has expanded anti-money laundering responsibilities to reach new categories and sectors (property developers, lawyers, and others).

Banking Secrecy

One of the least understood aspects of Lebanon's regulatory regime is its banking secrecy law. Promulgated on September 3, 1956, the law imposed on all domestic banks and their foreign branches was intended at the time to uphold the "secrecy of the profession," precluding bank managers and employees from revealing account information, such as customer names, asset values, or holdings to any third party in the absence of special circumstances – bankruptcy, litigation between the bank and the client, or upon the client's written authorization. The purpose of the banking secrecy law was to protect the confidential and private information of banking customers.

From its inception, the law always allowed for exemptions to these restrictions under certain circumstances. Importantly, where judicial or law enforcement authorities had to investigate cases of illicit accumulation of wealth by public officials, banks could not withhold such information. Moreover, in order to ensure the security of banks' investments, it allowed for mutual communication among banks, and under the provision of bank secrecy, of information related to the debtor accounts of their clients. This law does not prevent the competent authorities from having full access to the customers' accounts, as warranted.

In recent years, the law's implications have been narrowed considerably with the passage on April 20, 2001 of Law No. 318 "Fighting Money Laundering". (For further discussion, see below.) Importantly, Law No. 318 requires those institutions subject to the banking secrecy law to "control their operations with clients, in order to avoid being involved in activities that might conceal the laundering of funds." Therefore, it raises the expectations imposed on banks to ensure that their clients are not exploiting the banking system to engage in illicit activities.

Law No. 318 further confers upon the SIC full authority, and grants it the right, to lift banking secrecy "in favor of the competent judicial authorities and the Higher Banking Commission represented by its Chairman, on accounts opened with banks or financial institutions and suspected to have been used for money laundering purposes."[47] Moreover, for those institutions that are not subject to bank secrecy laws, such as financial brokerage firms, money exchange institutions, leasing companies and insurance companies, Law No. 318 requires the verification and retention for five years, through official documents, of the identity and addresses of clients; photocopies of documents; and photocopies of operation-related documents.[48]

47 *See* Law No. 318, Article 6, Provision 4.
48 *See* Law No. 318, Articles 4-5.

C.Developments in Lebanon's Banking Sector

Throughout the last twenty years, Lebanon has undertaken significant organizational, supervisory and legislative initiatives, and concrete measures to combat money laundering and the financing of terrorism. Moreover, the banking sector has developed a considerable degree of awareness about international anti-money laundering procedures to combat illicit finance.

In 1990, the Financial Action Task Force ("FATF"), an international standard-setting body, offered its 40 recommendations in an effort to fight the illegal flow of funds involved in narcotics trafficking. Five years later, Lebanon, seeking to demonstrate its active adherence to these principles, became a signatory to the 1988 United Nations Convention Against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances. In 1997, it became a signatory to the Due Diligence Convention on the Commitment by Banks to Combat the Laundering of Illegal Drug-Trade Funds.

One significant catalyst for the expansion of enforcement measures against money laundering and other illicit financial activities was the 1997 Convention of Due Diligence between the ABL and its member banks. This undertaking became the cornerstone for the policies and procedures subsequently introduced to regulate and provide a guide for the banking system's efforts to fight money laundering.

The 1997 Convention further identified four principal objectives:

- Know your customer, to mitigate the risk of money laundering;
- Control the capital movement and reporting of suspicious transactions;
- Vet the transactions amounting to USD10,000 and above;
- Create awareness among banks' employees and train them on the technicalities for fighting money laundering.

The Central Bank immediately sought to enforce these broad principles by issuing implementing circulars. In April 1998, the Association prepared and issued guidelines to member banks to advise them on uniform procedures. To monitor the process, it created a supervisory committee headed by a former governor of the Central Bank. On April 25, 1998, the ABL released Circular #30, to create procedures for the content of documentation related to KYC requirements. It also contained the requirement for a compliance officer at branch level and defined its role; it created internal control procedures relevant to AML and elaborated on the role of the Head of Operations in monitoring AML compliance and reporting procedures.

Despite these efforts by the banking community, in its June 2000 inaugural review pursuant to the Non-Cooperative Countries and Territories (NCCT) initiative, the FATF designated Lebanon along with other countries as one of the jurisdictions that had not adopted and implemented the requisite measures for preventing, detecting, and punishing money laundering pursuant to internationally recognized standards. This finding was part of FATF's effort to bring the world's financial centers into compliance with international anti-money laundering norms, derived from FATF's review of domestic laws, regulations, and public commentary.

Following the FATF's lead, one month later in July 2000, the U.S. Department of Treasury's Financial Crimes Enforcement Network ("FinCEN"), issued an advisory calling on banks and other financial institutions in the United States "to give enhanced scrutiny to all financial transactions" going to or arriving from Lebanon. In so doing, it emphasized that the 1956 Bank Secrecy Law prohibits the access of bank managers and employees to client information and therefore suggested that it potentially impedes public administrative, law and judicial enforcement, and foreign authorities from obtaining access to customer information that may be necessary for criminal investigations. It further noted the failure of Lebanese law to require banks to report suspicious activities to Lebanese authorities and to criminalize money laundering with respect to activities other than narcotics trafficking and public corruption.

Immediately after the FATF designation and FinCEN advisory, Lebanon undertook efforts to prepare new legislation to strengthen its oversight, investigation and judicial enforcement procedures. Since 2000, Lebanon has aggressively developed and implemented measures to improve its practices and meet international standards. These measures have been critical in the evolution of Lebanon's financial regulatory regime.

The watershed event that marked the start of major reform efforts was the April 20, 2001 enactment by the Lebanese Parliament of Law No. 318, which criminalizes money laundering, promotes the efficient combating of such activities, and facilitates cooperation with the international community. The product of vigorous efforts undertaken by the Lebanese monetary and financial authorities, and the Association of Banks in Lebanon, Law 318 deems as "illicit funds" those monies that derive from the narcotics trade, the illegal arms trade, acts of terrorism, and other criminal activities. Its implementing regulations went into effect in May 2001, and set out requirements for: conducting due diligence when establishing and maintaining relationships with foreign correspondent banks; conducting due diligence when establishing new customer relationships ("know your customer" or "KYC" procedures); and administering investigation and compliance units.

In June 2002, after assessing the comprehensive promulgation and implementation of Law 318, FATF announced that Lebanon would be classified as having met the requisite anti-money laundering standards. Correspondingly, it removed Lebanon from its NCCT list. One month later, recognizing the country's extensive efforts, FinCEN notified U.S. financial institutions that they could relax their money laundering scrutiny of Lebanon. In so doing, it stated that Lebanon's efforts constituted "significant reforms to the counter-money laundering system," and as "taking concrete steps" to give effect to its reforms.

Law 318 also established the Lebanese Financial Investigation Administrative Unit, which operates as a Financial Intelligence Unit (FIU) in conformity with the practices of the Egmont Group. The Egmont Group was established for the express purpose of creating a forum through which FIUs across the world could exchange information, expertise, and training. In July 2003, it welcomed Lebanon as a member country. The Lebanese FIU functions "as the competent authority and the official center for monitoring, collecting and archiving information on money laundering offences." It exchanges information with its foreign counterpart members of the Egmont Group, thereby maintaining transparency with other FIU members in the effort to strengthen cross-border cooperation and information exchange.

After implementing a foundation for a legal regime, Lebanon has continued to tighten its rules on the licensing and creation of financial institutions, requirements for proper customer identification, and commercial law requirements for registering businesses and legal entities. It has also enhanced the international cooperation by administrative and judicial authorities. Lebanese banks have worked hard to combat money laundering activities by introducing tight internal procedures, enhancing coordination with concerned governmental agencies and improving employee training. Pursuant to law Nos. 547 and 553 of 2003, which amended Law 318, Lebanon further broadened the scope of its regulatory efforts by amending article 316 of its penal code and thereby criminalizing terrorist financing.

In 2004, Lebanon was a key founder and the first president of MENA-FATF, the multilateral task force comprised of fourteen nations in the MENA region to encourage collaboration and cooperation in meeting FATF standards.

Lebanon undertook efforts to improve its communication and information-sharing among the leaders of government agencies that administer anti-money laundering measures. A National Coordinating Committee for AML (NCCAML) was established in October 2002 to ensure that relevant local officials, including a vice-governor of the Central Bank of Lebanon and representatives from the Director General of Customs and the Internal Security Forces ("ISF"), could coordinate their policies and exchange expertise and information. It was expanded in 2007 to include representatives from the Ministries of Justice, Finance, Interior and Municipalities, the Beirut Stock Exchange and others. In the same year, a National Coordinating Committee for Counter-Financing of Terrorism was established pursuant to FATF's 2004 IX Special Recommendations and the 1999 UN Convention for the Suppression of the Financing of Terrorism.

The Central Bank reiterated the reporting and due diligence requirements on financial brokerage firms in an August 2005 circular that implemented amendments to Law 318 of 2001. These measures included the requirements to: uphold existing KYC and due diligence obligations; ascertain the identity and business of correspondent banks; ascertain the identity of permanent and transient clients; evaluate client identity in the event of suspicion; update requisite KYC forms; appoint a Compliance Officer to prepare an anti-money laundering manual, monitor procedures, train personnel, and maintain databases and software for tracking potentially suspicious individuals.

Notably, as identified in the Central Bank's Circular 190 of 2010, it has devised a system whereby the banks' customer database is divided into three levels of risk that correspond with the risk-based approach formula set out in the best practices procedures of various domestic and international bodies, including FATF. Domestic KYC procedures have been improved over the years and now all customers' names are screened against databases provided by reputable specialized firms and local watch-lists provided by the SIC and the U.S., E.U. and U.N. KYC procedures dictate that customers must identify the "source of their funds." Transactions that are inconsistent with their normal business practices or otherwise suspicious must be reported to the SIC. More importantly, Circular 83 amended in 2011, sets an update best practice framework for AML control mechanism.[49]

Additionally, banks are carrying out industry-wide efforts to ensure that personnel are sufficiently knowledgeable and equipped. Employees in the banking sector are undergoing intensive training sessions, seminars, workshops and forums covering both international and local laws and regulations that combat money laundering and terrorism financing. The domestic training seminars are held by the Lebanon Central Bank, the Association of Banks in Lebanon, and the banks themselves. More importantly, Lebanese banks are regularly audited by SIC and by external auditors from the leading international auditing firms. SIC staff is also undergoing intensive training outside Lebanon (U.S Federal Reserve, Banque de France, and Bundesbank).

In 2011, the Central Bank issued Intermediate Circulars 273 and 274, imposing greater restrictions on financial intermediation entities that engage in the cross-border movement of funds and currency. It also set out provisions in a May 27, 2011 circular to be followed by auditors to ensure the highest levels of compliance with anti-money laundering rules.

Most recently, Lebanon has been recognized for progress in its efforts to mitigate the risks of money laundering and terrorism-financing in its banking sector. As of February 2012, it remains excluded from a list of 40 jurisdictions designated by FATF as either subject to counter-measures by the international regulatory bodies, or cited for not having made sufficient progress in addressing the deficiencies in AML/CFT or ones that have only recently provided high level of political commitment to address deficiencies.

As further evidence of its continued commitment to upholding international norms, in March 2012, the Lebanese government approved three important draft laws and submitted them to the Parliament. These proposed laws seek to amend its anti-money laundering statute, Law 318 of 2001, as well as to implement more rigorous standards for cross-border transport of cash and the exchange of tax information.

By way of example, in the bill concerning cross-border cash transport, the government sought to broaden the definition of money to include not only cash, but also other means of transactional payment such as commercial debentures and financial paper. It also sought to adopt a dual system that requires reporting of sums exceeding USD15,000 and responding to demands from customs authorities. Such a report or disclosure includes details about the money transferor, the owner, receiver, and source of funds and means of transportation. The government cited as a fundamental basis for the new law the need for more effective participation in the efforts of the international community to fight money laundering and the financing of terrorism. This law also sought to meet the 9th FATF recommendation that every government should carry out measures to track the entry and existence of cross-border cash transfers.

49 http://www.bdl.gov.lb/circ/circpdf/83_en.pdf

Banks are extremely diligent in establishing relationship and opening accounts for money dealer institutions. They are required to receive the approval of their compliance units first and are prohibited from having accounts for the money dealer institution in parallel with holding personal accounts for the institution's owners, partners or the family members. Further, money dealer institutions must immediately send to the bank the notification of any operation that takes place through its intermediary, if this transaction exceeds the amount of 10 thousand U.S. dollars or its equivalent. The notice details shall include the source of the amounts, their destination and the beneficiary's identity. Banks must also add a statement of "first beneficiary only" on all the checks on checkbooks they issue and deliver to money dealer institutions, thus preventing endorsement by beneficiaries to any third party. Money dealer institutions are prohibited as well from placing direct cash deposits in the accounts of their clients, but instead must place them first in the account of the institution to be settled by checks or transferred by wire exclusively to their clients' accounts. Furthermore, money dealer institutions are not allowed to perform wire transfers and / or electronic payments by virtue of clients' requests to third parties in Lebanon or abroad. These procedures simplify the task of banks to closely identify the source of funds in relation to personal accounts through the "know your client (KYC)" mechanism.

The Lebanese government also approved and sent to the parliament a law that would grant Lebanon the legal basis to regulate the exchange of information related to tax evasion and fraud, and to abide by the norms established by the Organization for Economic Co-operation and Development and adopted by G20 countries.

Within the same vein, on April 5, 2012, the Central Bank of Lebanon issued Basic Circular No. 126, which seeks to implement measures to prevent reputational risks accompanying the conduct of financial transactions through subsidiaries, sister companies, or correspondent banks abroad. The provision requires Lebanese banks to implement strict risk-based Know-Your-Customer methodologies for vetting customers' identities, particularly in respect to cross-border operations. It also requires the banks to be fully informed of the laws and regulations governing correspondent banks abroad, and to transact business in accordance with such laws, regulations and procedures adopted by the sovereign authorities in the correspondents' home countries or by international legal organizations. Circular 126 requires Lebanese banks and financial institutions to apply the utmost due diligence to vet the true identity of the owner of the funds in any questionable transaction. This circular is applicable to banks operating in Lebanon and their subsidiaries and branches abroad.

The efforts of the Lebanese banking sector have not gone unacknowledged. In 2005, the U.S. Assistant Secretary to the Treasury, recognized the centrality of Lebanon's role in the MENA-FATF region when he acknowledged the "commitment" and "seriousness of purpose" of all members, and emphasizing the important leadership of Lebanon and its then-SIC head, Muhammad Baasiri.

More recently, tacit recognition of these activities came on July 19, 2012, when FinCEN released its newest advisory regarding those countries that should be the subject of heightened concern. Lebanon was not included among this list of countries nor has it been so listed for more than a decade. The Lebanese banking community has been recognized for its "quiet" implementation of multilateral sanctions, namely U.S and EU sanctions, against Syria as well as its reduction of lending operations in the country.[50] Lebanese banks, including branches operating in Syria, have taken a lead role in applying U.S. sanctions and have been criticized by Syrian authorities for doing so.

50 Epstein, M. and Saeed, A., 'Smart sanctions take toll on Syria', Financial Times, July 18, 2012, www.ft.com/intl/cms/s/0/9faf8274-d0bf-11e1-8d1d-00144feabdc0.html##axzz25oJi1kzx. *See* International Monetary Fund Country Report 12/39 (February 9, 2012), page 10.

Standardization of Controls Across the Banking Industry

Controls over anti-money laundering and compliance are required in the Lebanese regulatory framework. They are structured corporate level and system level controls.

Corporate Level Controls relate to corporate governance over compliance and AML. It provides guidelines for mechanisms necessary to establish and enforce relevant policies and procedures of each Lebanese bank. These controls affect responsibilities of the following bodies:

- Boards of Directors;
- Compliance and AML Committee with defined role and responsibilities in accordance with Article 11 of the BDL Circular No 83;
- Compliance Units with well-structured and defined role in accordance with Article 11 of BDL Circular No 83;
- Role and duties of compliance officers;
- Authorities and reporting mechanism;
- Internal audits.

The Central Bank has issued several circulars requiring banks to enhance their corporate governance in line with the principles issued by the International Basel Committee for enhancing corporate governance in Banking in Lebanon.

System Level Controls constitute preventive level controls through the implementation of checks and balances in relationships between banks and their correspondents, customers (corporate and individuals) and other market participants. Such controls are the product of the efforts of the Central Bank and the SIC, and they take into account the following factors:

- Legal documentation related to the identity and activities of the correspondent banks for the purpose of verifying that they are not "shell banks";
- Legal documentation relating to the identity of the clients and place of residence in addition to the identity of the persons authorized to open and perform transactions on the accounts by proxy;
- Corporate documents relating to the Company's articles of incorporation, address and authorized signers;
- Identification of economic beneficiaries and source of funds across branches;
- Use of Know Your Customer (KYC) forms including the essential information regarding the customer, in particular, commercial or professional activity;
- Retention of documents related to customers (identity, address of residence, profession, financial position, etc..) and transactions for a minimum retention period after the transaction date or date of closing the accounts;
- Retention of records with names of persons authorized to open or perform transactions on customers' accounts by proxy;
- Adoption of Anti-Money Laundering policies and procedures that are required to be adequately communicated to employees and branches for adoption;
- Establishment of Anti-Money Laundering Committee within each bank with a defined role and specific responsibilities in accordance with Article 11 of the Anti-Money Laundering Law and process to monitor performance of the Committee;
- Quantitative steps to enhance awareness, and provision of guidance and training to employees related to the risks of money laundering and the detection of its occurrence;
- Investigation mechanism and process for cash deposits, cash withdrawals and incoming payment orders with a defined threshold effected in the customers' accounts (advances and deposits). Adoption of deposit slip voucher (CTS) to document the source of funds where single deposits or aggregation of deposits exceed the limits established at account opening;

• Use of exemption list with limits in respect of clients, excepted from the routine procedures regarding cash deposits and/or transfers exceeding the threshold limits, based on knowledge of customers' activities and a policy to review regularly the adequacy of these limits in line with economic changes and their effect on the customers' position;
• Adoption of an Anti-Money Laundering reporting system that generates reports on a regular and timely basis to monitor customers' accounts and transactions effected on these accounts;
• Records for tracking the names circulated by the SIC and the names of suspicious accounts that are reported by the Bank.
• Adoption of a risk-based approach for classifying customers and operations based on the rating of risks: limited, medium and high; and the use of a specialized software application system to perform the necessary evaluations based on risk classification. This is applied at the acceptance stage and is subject to ongoing monitoring of customer activities and transactions.

D. Enforcement and Oversight

The Lebanese banking sector has worked to obtain passage and implementation of AML regulations and laws. It has also undertaken considerable efforts to facilitate their enforcement. The Central Bank and the SIC have sought to cooperate with the Lebanese Justice Sector and other government bodies, by conducting audits and investigations, referring cases, and lifting banking secrecy. By way of example, immediately upon the inception of Lebanon's new banking regulatory regime in 2001, the SIC and other bodies undertook efforts to enforce the newly promulgated laws. During that year, the SIC received 29 cases relating to money laundering and 9 cases related to terrorism. All 38 of these cases were investigated; banking secrecy was lifted in 22 of them; and USD 5.2 million in funds were frozen.[51] In 2002, the SIC worked closely with other government agencies, particularly law enforcement and customs, to establish anti-money laundering units in those sectors.[52]

In fact, each year since the inception of the SIC, the banking community and regulatory sectors have continued to make strides in investigating and pursuing enforcement against actors who engage in the unlawful use of private and public funds. These cases concerned allegations of the misuse of funds and banks in support of terrorism, money-laundering, organized crime, forgery, the embezzlement of public and private funds, counterfeiting, illegal arms trade, and drug trafficking. The SIC has also cooperated extensively with international agencies to conduct investigations into referred cases and to conduct training and professional development seminars with foreign financial intelligence units and other bodies.

In order to provide a window into its considerable efforts, below, a cross section of the SIC's activities has been extracted from the body's annual reports.

51 2001 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2001_En.pdf.
52 2002 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2002_En.pdf.

Appendix: Annual Achievements of the SIC

2002

The SIC received 150 STRs involving 138 cases. Banking secrecy was lifted off 79 cases that were passed on to the General Prosecutor and or the reporting competent authority as called for by Law 318 and 35 cases are currently under investigation. The SIC also examined 48 banks and a significant number of other reporting entities to ensure compliance with AML regulations.

2003

The SIC investigated 232 cases 82 of which were foreign and 40 cases are currently under investigation. Banking secrecy was lifted off 135 cases and were forwarded to the concerned parties as called for by Law 318. New investigative methods were adopted and frequent contacts with FIUs regarding cases under investigation became a routine exercise.[53]

2004

The SIC received 199 cases of which 153 cases were investigated, 56 cases were foreign and 46 cases are under investigation. Banking secrecy was lifted off 71 cases that were eventually forwarded to concerned parties as called for by Law 318. The SIC also examined 24 banks, several financial institutions and numerous other reporting entities to ensure compliance with prevailing AML regulations. Its Compliance Unit examined 24 bank, 24 financial institutions, 24 insurance companies and 43 money dealers not to mention several other off-site examinations. As a result, the SIC reprimanded several reporting entities particularly those which after the second compliance visit still failed to take corrective measures prescribed by the SIC.[54]

2005

The SIC received and investigated 195 cases and it lifted bank secrecy in 88 instances. It conducted on-site compliance examinations for 23 banks, 13 financial institutions, 22 insurance companies, 86 money dealers and 2 brokerage firms. External auditors' reports pertaining to 61 Banks & 28 Financial Institutions were evaluated and compared with Compliance Unit reports.[55]

2006

The SIC received and investigated 154 cases and it lifted bank secrecy in 70 instances. It conducted on-site compliance examinations for 26 banks, 10 financial institutions, 33 insurance companies, 86 money dealers and 2 brokerage firms. External auditors' reports pertaining to 62 Banks & 25 Financial Institutions were evaluated and compared with Compliance Unit reports[56]

53 2003 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2003_En.pdf.
54 2004 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2004_En.pdf.
55 2005 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2005_En.pdf.
56 2006 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2006_En.pdf.

2007

The SIC investigated 191 cases, and in 54 of those cases, banking secrecy was lifted and passed on to the prosecuting authorities and foreign counterparts. It subjected the following institutions to on-site compliance examinations: 20 banks, 15 financial institutions, 53 money dealers and 8 money remitters in addition to 3 leasing companies, 2 brokerage firms and Casino du Liban.[57]

2008

The SIC received and investigated 226 cases, and in 67 of those cases, banking secrecy was lifted and passed on to the prosecuting authorities and foreign counterparts.[58]

2009

The SIC completed investigations of 202 cases; 127 referred by local sources, and 75 by foreign sources. Bank secrecy was lifted in 14 of those cases, all of which were referred to the General Prosecutor. The SIC conducted numerous on-site examinations covering 22 banks, 22 financial institutions, 20 insurance companies, 49 money dealers, and other reporting agencies.[59]

2010

The SIC Compliance Unit examined 23 banks, 18 financial institutions, 34 insurance companies, 73 money dealers and a number of other reporting entities. 245 cases were received, 160 from local sources and 85 from foreign sources, and banking secrecy was lifted in 23 cases and passed on to the General Prosecutor.[60]

2011

A total of 191 institutions including 24 banks, 18 financial institutions, 19 insurance companies, 8 money remitters and 117 money dealers, and other reporting entities such as leasing companies and financial brokerage firms were held to the rigorous standards as called for by prevailing AML/CFT regulations. A total of 335 cases were handled, 100 from foreign sources and 235 from local sources, appropriate decisions were taken including providing competent authorities with valuable information, lifting bank secrecy, freezing funds and passing on information to the General prosecutor.[61]

57 2007 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2007_En.pdf.
58 2008 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2008_En.pdf.
59 2009 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2009_En.pdf.
60 2010 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2010_En.pdf.
61 2011 Annual Report of the Special Investigation Commission (Lebanon's Financial Intelligence Unit), http://www.sic.gov.lb/downloads/SIC_Annual_Report_2011_En.pdf.

Appendix

Timeline of Developments & Trends in Regulation of the Banking Sector

1956

September 3

Lebanon passes a Bank Secrecy Law. In the interest of customers, the law binds by banking secrecy managers, employees, or anyone with access to the banks' books, operations and correspondence. It precludes disclosure of customer information, such as names and assets, to any third parties without written authorization from the customer or a request by judicial authorities where illicit accumulation of wealth, money laundering, bankruptcy, or bank-customer litigation are at issue.

1959

October 6

The Association of Banks in Lebanon is established. It identifies as one of its objectives the effort to work with the relevant authorities in order to advise upon and to implement the necessary regulation and legislation to enhance the banking profession and structure.

1963

August 1

The Code of Money and Credit is passed via Decree No. 13513 and establishes the Banque du Liban ("BDL").

1967

Lebanon establishes the Banking Control Commission, which serves as a supervisory authority over banking activities and compliance with financial and banking rules and regulations.

1996

March 11

Lebanon accedes to the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.[62]

1998

March

Article 132 of Law No. 673/98 on Narcotic Drugs and Psychotropic Substances, and Precursors, which criminalizes narcotics-related money laundering, goes into effect. (It comes to be superseded by Article 15 of Law 318 of 2001.)

1999

December 27

Law No. 154 prohibiting illicit enrichment is promulgated. It requires public officials to indicate their sources of wealth, as well as declare their assets at the inception of their term in office and at their departure. Furthermore, if legal proceeding is engaged the bank secrecy shall be lifted.

62 Adopted on December 20, 1988 and entered into force on November 20, 1990. Law No. 426 of May 15, 1995 authorized Lebanon's signature

2000

March 21

The U.S. Department of State ("State Department") issues its International Narcotics Control and Strategy Report on Money Laundering and Financial Crimes ("INCSR").[63] It reports that Lebanon's "long tradition" of bank secrecy, its cash-intensive economy, heavy use of foreign currency, and the influx of remittances from Diaspora expatriates, make the country vulnerable to money laundering. Although the report acknowledges Lebanon's efforts to improve the regulatory environment, such as its repeal of a law authorizing offshore banking and its requirement that banks establish internal audits and procedures, it finds that Lebanon needs to make additional strides.

The INCSR also deems Article 132 of Law No. 673/98 inadequate for combating money-laundering, as it neither requires reporting of suspicious or large cash transactions nor contains any modifications as to bank secrecy. The State Department also points out that the law "does provide for the seizure of assets and for piercing bank secrecy on a case-by-case basis." Moreover, it notes that to date there have been no prosecutions of money laundering cases under the new law, nor are any investigations in progress.

June 22

The Financial Action Task Force ("FATF") releases its list of "noncooperative" nations ("NCCT list"), or countries with bank secrecy laws and weak regulatory structures that may operate as havens for illicit funds. Lebanon is named on this list, which also includes Israel, Russia, and the Cayman Islands.

July

U.S. Department of Treasury Financial Crimes Enforcement Network ("FinCEN") releases Advisory-Issue 18[64] directed at U.S. banks and other financial institutions to "give enhanced scrutiny" to financial transactions routed through Lebanon or involving entities and individuals that are its domiciliaries. The advisory warns that the country's "legal, supervisory, and regulatory systems" are plagued with "serious systemic problems."

December 30

Law No. 253, making it illegal to establish offshore banks in Lebanon, is promulgated.

63 1999 INSCR Report (issued March 1, 2000), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/1999/928.htm. The report also acknowledges that in 1999 the U.S. Bureau of International Narcotics and Law Enforcement Affairs lead a team from the U.S. Department of Justice, the U.S. Customs Service, the Drug Enforcement Administration, and the Federal Reserve Board of Governors that conducted a weeklong money laundering and training assessment in Lebanon.

64 Available at http://www.fincen.gov/news_room/rp/advisory/pdf/advis18.pdf.

2001

March

The State Department issues its annual INCSR.[65] It reports that the "current legal, supervisory, and regulatory systems of Lebanon create significant opportunities for the laundering and protection of the proceeds of crime. Weaknesses in these systems allow criminals to evade effective investigation and punishment."

April 20

Lebanon passes Law No. 318 to combat money laundering.[66] Law 318 defines money laundering operations, and it criminalizes the laundering of proceeds from various financial and other crimes. It establishes standards for implementing the Bank Secrecy Law, and it establishes the country's financial intelligence unit, the Special Investigation Commission (SIC), as an independent legal entity with judicial status, to investigate suspicious transactions and evaluate corresponding evidence.

May 18

Basic Circular No. 83 (Basic Decision No. 7818) is circulated.[67] It contains 13 articles constituting the "Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering," pursuant to Law No. 318. It sets out customer identification requirements, suspicious transaction reporting procedures, and internal audit and due diligence obligations.

July 4

SIC Circular 1 states all institutions not subject to the Bank Secrecy Law, including money dealers, insurance companies, and financial brokerage firms, must abide by the provisions of Law 318, particularly with regard to maintaining records (for at least five years) for transactions that exceed USD 10,000.[68]

SIC Circular 3 requires the attachment of a report to the letter notifying the SIC Chairman of any transactions or operations suspected or ascertained to be involved in money laundering.[69]

July 20

SIC Circular 2 requires that all banks and other institutions obligated to report on money laundering operations send information to the SIC Chairman / Governor of the BDL or to the SIC Secretariat in a sealed envelope marked with the phrase "Strictly Confidential." [70]

August 6

Law No. 347 is passed to regulate the money changer profession in Lebanon.[71] It prohibits institutions other than banks, financial institutions, and financial intermediation institutions registered with the BDL, namely exchange institutions.

September 27

BDL Basic Circular No. 3, which implements regulations as to the money exchange profession.[72] It requires that exchange institutions notify banks about any checks that exceed USD 10,000 and that are issued to an exchange institution and drawn on a particular bank, as well as about whether checks are "performed against an amount received in cash; [and about] the source and destination of the funds, the identity of the beneficiary and the economic right owner."

December 18

Lebanon becomes a signatory to the UN Convention Against Transnational Organized Crime.[73]

65 INCSR 2000 (issued March 2001), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2000/959.htm.
66 LAW No. 318 of April 20, 2001, Fighting Money Laundering, http://www.bdl.gov.lb/circ/lawpdf/law318_en.pdf.
67 Basic Circular No. 83, May 18, 2001, http://www.bdl.gov.lb/circ/circpdf/83_en.pdf.
68 http://www.sic.gov.lb/circular1.shtml.
69 http://www.sic.gov.lb/circular3.shtml.
70 http://www.sic.gov.lb/circular2.shtml.
71 http://www.bdl.gov.lb/circ/lawpdf/Law347_en.pdf.
72 Basic Circular No 3 to Exchange Institutions, http://www.bdl.gov.lb/circ/circpdf/3m_en.pdf.
73 Adopted by resolution A/RES/55/25 on 15 November 2000 and entered into force on 29 September 2003.

2002

March

The State Department issues its annual INCSR,[74] taking particular note of Lebanon's adoption of Law No. 318. It says that Lebanon has tackled a number of "serious deficiencies in its legal, supervisory, and regulatory anti-money laundering system," as well as calls for the aggressive implementation and enforcement of Law No. 318, "thereby strengthening its ability to combat money laundering domestically and internationally."

June 21

FATF removes Lebanon, along with Israel and St. Kitts and Nevis, from the list of NCCTs.

July

FinCEN withdraws Advisory 18 noting that Lebanon had enacted significant reforms to its anti-money laundering system, had taken concrete steps to effectuate these reforms, and had established a regime that generally meets international standards.[75] It also notified U.S. financial institutions that heightened scrutiny of transactions involving Lebanon and Lebanese financial institutions was not longer than necessary. In its National Money Laundering Strategy report, issued this month, the U.S. Department of Treasury also highlights it provision of "technical assistance or training" and "money laundering technical assistance" to Lebanon.[76]

October 24

Lebanon establishes a National Coordinating Committee for AML (NCCAML) to ensure that relevant local officials – including a vice-governor of the Banque du Liban and representatives from the Director General of Customs and the Internal Security Forces ("ISF") – would be able to coordinate their policies and exchange expertise and information.

74 INCSR 2001 (issued March 2002), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2001/rpt/8487.htm
75 FinCEN Advisory – Withdrawal: Transactions Involving Lebanon, Issue 18A, July 2002, http://www.fincen.gov/news_room/rp/advisory/pdf/advis18a.pdf.
76 U.S. Department of Treasury, National Money Laundering Strategy, July 2002, http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Documents/ml2002.pdf.

2003

March

The State Department's annual INCSR states that a: "FinCEN analysis of the Suspicious Activity Reporting System [SAR] for January 1, 2002 through October 31, 2002, reveals there are 286 SARs that could be linked to transactions associated with Lebanon. It also reveals that much of the reported activity (156 or 54.5%) involves suspicious or fraudulent wire transfer activity between Lebanon and other countries."[77]

July

Lebanon joins the Egmont Group, an informal group of financial intelligence units from various jurisdictions.

September 18

SIC Circular No. 4 requires that all banks and financial institutions that have failed to complete their Know-Your-Customer ("KYC") analyses for existing customers finalize this process by June 30, 2004.[78] (It is modified by SIC Circular No. 13, dated May 27, 2011, which provides amended forms used for the KYC procedures.)

October

As a result of Lebanon's passage and implementation of Law No. 318, the FATF formally ends its monitoring of Lebanon's banking system.

October 20

Lebanon passes Law No. 547 to amend Law No. 318, in particular, broadening Article 1 to criminalize funds resulting from the financing or contribution to the financing of terrorism, terrorist acts, or organizations – as based on the definition of terrorism in the Lebanon Penal Code.[79]

Law No. 553 amends the Lebanese Criminal Code, specifically with the addition of Article 316bis, which prohibits as criminal activity the funding of terrorism, terrorist activities, or terrorist organizations.[80] It stipulates that any person who voluntarily finances or contributes to terrorist organizations or acts may face a punishment of imprisonment with hard labor for three to seven years and a fine.

November

BDL, in conjunction with the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS), releases "Payment systems in Lebanon."[81]

77 INCSR 2002 (issued March 2003), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2002/html/17952.htm.
78 http://www.sic.gov.lb/circular4.shtml.
79 MENAFATF, Mutual Evaluation Report: Anti-Money Laundering and Combating the Financing of Terrorism – Lebanon, ¶138 (2009), http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf.
80 MENAFATF, Mutual Evaluation Report: Anti-Money Laundering and Combating the Financing of Terrorism – Lebanon, ¶134-35 (2009), http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf
81 Payment systems in Lebanon, CPSS Publications No 58, November 2003, http://www.bis.org/publ/cpss58.pdf.

2004

March

The State Department's annual INCSR states that since its inception, the SIC has been active in providing support to international case referrals.[82] It also notes that "[f]rom January through November 2003, the SIC investigated over 250 cases involving allegations of money laundering and terrorist financing activities. Twenty-eight of these cases were related to terrorist financing, of which five were local terrorism financing cases. Bank secrecy regulations were lifted in 127 instances, and three cases relating to money laundering were transmitted by the Supreme Court state prosecutor to the criminal court for trial. The cases included 22 requests from the United States."

The State Department also highlights the SIC practice of circulating "to all financial institutions the list of individuals and entities included on the UN 1267 sanctions committee's consolidated list of entities linked to Usama Bin Ladin, al-Qaida, or the Taliban."

It notes that Lebanon "should focus greater attention and resources towards achieving successful prosecution of money laundering offenses."

April 28

Nasser Saidi, Former Minister of Economy and Trade, Minister of Industry and First Vice Governor of the BDL, gives a presentation entitled "Corporate Governance and Business Ethics in Lebanon."[83] He notes that the Association of Banks in Lebanon entered into a successful "Convention de Diligence" with the country's banks, preceding the passage of Law 318.[84]

April 29

SIC Circular No. 5, pursuant to Basic Decision No. 7818, requires the completion and submission of the results of an external audit of banks and other financial institutions by March 31, 2005.[85]

November 12

SIC Circular No. 6, addressed to banks and other institutions required to report on money laundering operations, modifies text as to the "nature of an offence" to be found in: Law No. 318; Articles 6 and 8 of the Regulation on Regulation on the Control of Financial and Banking Operations for Fighting Money Laundering, attached to BDL Decision No. 7818 of 18/5/2001; and Decisions taken by the SIC, respectively dated 11/10/2001 and 28/9/2004.[86]

November 30

Lebanon, along with the governments of 13 other countries of the Middle East-North Africa region at an inaugural Ministerial Meeting in Manama, Bahrain, decides to establish MENA-FATF as a FATF-style Regional Body (FSRB). It is an independent body that is not derived of any international treaty and is voluntarily created in the spirit of cooperation among its members. During its first year of operation, it is chaired by Muhammad Baasiri, who administered the SIC during the time when it was removed from the FATF NCCT list and it joined the Egmont Group.

82 INSCR 2003 (issued March 2004), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2003/vol2/html/29921.htm.
83 Saidi, N., "Corporate Governance and Business Ethics in Lebanon", Launch of RDCL "Code of Business Ethics", Beirut, April 2004, http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/MENA_Forum_Banking_and_Transparency_Saidi_Jan_05/$FILE/BankingSysteminTransp&Disc.pdf.
84 See also INCSR 2000 (issued March 2001), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2000/959.htm. It states that in 2000, the Lebanese Bankers Association also made mandatory its formerly voluntary system for self-regulation, the Due Diligence Convention, which constituted a set of requirements to combat the laundering of money obtained from illegal drug trade. It addresses issues such as customer identification and record keeping.
85 http://www.sic.gov.lb/circular5.shtml.
86 http://www.sic.gov.lb/circular6.shtml.

2005

March

The State Department's annual INCSR acknowledges that "The SIC has signed a number of memoranda of understanding with other FIUs concerning international cooperation in anti-money laundering and combating terrorist financing."[87] The State Department further writes,

> The SIC cooperates with competent U.S. authorities on exchanging records and information within the framework of Law 318. From January through November 2004, the SIC investigated over 176 cases involving allegations of money laundering and terrorist financing activities. Out of these cases, 13 were originated from U.S. Government (USG) requests. Seventeen of these cases were related to terrorist financing. Bank secrecy regulations were lifted in 68 instances, and three cases relating to money laundering were transmitted by the SIC to the State Prosecutor General to determine if these cases would be referred to the criminal court for trial.

August 18

SIC Circular No. 7 set out a series of provisions requiring financial brokerage firms to improve their KYC, compliance monitoring, and record-keeping practices.[88] It also requires these entities to: (i) implement suspicious activity reporting; (ii) establish databases of information communicated by the SIC regarding holders of suspicious accounts; (iii) maintain a special register or software program for recording the names of those who activate accounts by proxy; and (iv) to report suspicious activities and customers to the SIC and BDL.

September 28

U.S. Acting Assistant Secretary for Terrorist Financing and Financial Crimes at the U.S. Department of Treasury, Daniel Glaser, identifies Lebanon as "a very important leader of the MENA FATF," and he noted that Lebanon "happens to be fairly far along in applying the [FATF] recommendations."[89]

October 5

Lebanon ratifies the UN Convention Against Transnational Organized Crime.[90]

December 23

BDL Intermediate Circular No. 99 (issuing Intermediate Decision No. 9217 of December 23, 2005, which amends Basic Decision No. 7548 of March 2000) is released to banks, financial institutions, and those institutions dealing with financial and banking transactions.[91] It contains to require that in executing international electronic money transfers, financial institutions must include "accurate and meaningful originator information" on those transfers and related messages throughout the payment chain. For transfers taking place within Lebanon, the requisite information must be provided within 3 business days.

87 INCSR 2004 (issued March 2005), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2005/vol2/html/42394.htm.
88 http://www.sic.gov.lb/circular7.shtml.
89 Spencer Osberg, U.S. lauds Lebanon's efforts in curbing money laundering and terror financing, The Daily Star (Leb), Sept. 28, 2005, available at http://www.dailystar.com.lb/News/Politics/Sep/28/US-lauds-Lebanons-efforts-in-curbing-money-laundering-and-terror-financing.ashx#axzz24JnMYewY.
90 It does so pursuant to Law No. 680 of August 24, 2005.
91 http://www.sic.gov.lb/circular99.shtml.

2006

March

The State Department's annual INCSR[92] reports that, through November 2005, the SIC investigated 173 cases involving allegations of money laundering and terrorist financing activities, 9 of which were initiated at U.S. Government request. Eighteen of the 173 cases were related to terrorist financing. Bank secrecy regulations were lifted in 76 instances. The SIC transmitted the 76 cases to the general state prosecutor for further investigations and to determine if these cases would be referred to the penal judge for indictment. Notably, the general state prosecutor reported two cases to the SIC for the freezing of assets, one concerning individuals convicted of organized crime activities and the other involving individuals convicted on drug charges. From January to November 2005, the SIC froze the accounts of 46 individuals in eleven of the 173 cases investigated.

November 7

SIC Circular 8 requests that banks and financial institutions "rigorously" implement Article 12, Paragraph 6 of the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and to remind them that the Chairman of the Board of such institutions will be held responsible for noncompliance.[93] This provision requires banks to determine that their staff and employees are in compliance with the obligation to refrain from disclosing information to any client about pending SIC actions related to that individual or entity.

92 INCSR 2005 (issued March 2006), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2006/vol2/html/62144.htm.
93 http://www.sic.gov.lb/circular8.shtml.

2007

March

The State Department's annual INCSR[94] reports that,

In spring 2006, the SIC started work on a self-assessment in order to further enhance compliance with FATF Recommendations, and to prepare for a potential assessment by international bodies, expected in late 2007 or early 2008. . . . . From January through October 2006, the SIC investigated 118 cases involving allegations of money laundering and terrorist financing activities. Of these cases, five were originated at U.S. Government request. Two of the 118 cases were related to terrorist financing. Bank secrecy regulations were lifted in 56 instances. Ten cases were transmitted by the SIC to the general state prosecutor for further investigation. As of early November 2006, no cases were transmitted by the general state prosecutor to the penal judge. In 2005, a SIC Remote Access Communication (SRAC) system was put in place for the exchange of information between the SIC, Customs, the Internal Security Forces (ISF) anti-money laundering and terrorist finance unit, and the general state prosecutor. The cooperation led to an increase in the number of suspicious transactions reports (STRs), and as a result, the SIC initiated several investigations in 2006.

April

BDL Intermediate Circular 136 (issuing Intermediate Decision 9592, modifying Law 347 and Basic Decision 7933), is addressed to money exchange institutions.[95] It requires that such institutions, when issuing a check or execution order relating to a banking transaction for more than USD 10,000 or the equivalent, provide the bank on which the check is drawn with a notice of the transaction. Such notice should state whether the transaction was for a cash exchange and provide information about the source and destination of the funds and the identity of the beneficiary and the recipient.

August 1

The President of the United States, George Bush, issues Executive Order 13441,[96] which prohibits activities, material support, and control of activities or property that "have the purpose or effect of undermining Lebanon's democratic processes or institutions, contributing to the breakdown of the rule of law in Lebanon, supporting the reassertion of Syrian control or otherwise contributing to Syrian interference in Lebanon, or infringing upon or undermining Lebanese sovereignty."

September 24

BDL Basic Circular No. 111 (issuing Basic Decision No. 9708 concerning the Hawala system), addressing banks, financial institutions, financial intermediation institutions, leasing companies, exchange institutions, and the public is issued.[97] It concerns the "Hawala" system, and it outlines requirements for those "Category A" institutions that seek to engage in the purchase and sale of foreign currencies through the use of the Hawala system. Among other requirements, they must provide a written notification to Banque du Liban, and keep for a minimum of five-years records of Hawala transactions.

December 9

A resolution of the Council of Ministers, No. 105/2007, expands the NCCAML to include representatives from the Ministries of Justice, Finance, Interior and Municipalities, and the Beirut Stock Exchange, and other government bodies.

A resolution of the Council of Ministers, No. 106/2007, establishes a National Coordinating Committee for Counter-Financing of Terrorism (NCCCFT) pursuant to FATF's 2004 IX Special Recommendations and the 1999 UN Convention for the Suppression of the Financing of Terrorism.

94 INCSR 2006 (issued March 2007), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2007/vol2/html/80887.htm.
95 http://www.bdl.gov.lb/circ/intpdf/int136_en.pdf.
96 http://www.fas.org/irp/offdocs/eo/eo-13441.htm.
97 http://www.sic.gov.lb/basicbdl.shtml.

2008

March

The State Department's annual INCSR[98] reports that,

From January through October 2007, the SIC investigated 182 cases involving allegations of money laundering, terrorism, and terrorist financing activities. Two of the 182 cases were related to terrorist financing. Bank secrecy regulations were lifted in 41 instances. Four cases were transmitted by the SIC to the general state prosecutor for further investigation. As of November 2007, no cases were transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported seven cases to the SIC. From January to October 2007, the SIC froze the accounts of three individuals totaling approximately $50,000 in three of the 182 cases investigated.

September 5

Lebanon enacts Offshore Law No. 19, thereby modifying existing provisions regarding the activities of offshore companies and transactions conducted outside Lebanon or in its Customs Free Zone. The law requires offshore companies to register with the Beirut Commercial Registrar, and owners to submit identification.

October 16

Law No. 32 of 2008 ("Expanding the SIC Competence to Include Corruption") is passed to provide the SIC with the "exclusive right to freeze and lift banking secrecy on bank accounts," pursuant to the UN Convention Against Corruption, and other anticorruption agreements that are in force.[99]

98 INCSR 2007 (issued March 2008), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2008/vol2/html/100808.htm.
99 http://www.sic.gov.lb/law32.shtml.

2009

January 2

SIC Circular 9 requests that banks execute the provision of Article 11 7(c) of the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering to ensure that no check is credited to an account before it has been collected from the issuing bank.[100]

March

The State Department's annual INCSR reports[101] that

From January through October 2008, the SIC investigated 153 cases involving allegations of money laundering, terrorism, and terrorist financing activities. Out of the 153 cases, three of them were related to terrorist financing, and the SIC froze the accounts of eleven individuals totaling approximately $38,000. Additionally, bank secrecy regulations were lifted in 48 instances, and eight cases were transmitted by the SIC to the general state prosecutor for further investigation. As of October 2008, two cases were transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported 15 cases to the SIC, three of which were related to embezzlement and counterfeiting charges, one to fraud, another to terrorism, two to drugs, and one to organized crime. However, as of late 2008 there has not been any money laundering convictions.

April 22

Lebanon accedes to the UN Convention Against Corruption.[102]

May 9

BDL Intermediary Circular 190 is issued, addressed to banks and financial institutions.[103] It seeks to devise a system whereby a bank's customer database is divided according to three levels of risk that correspond with the risk-based approach formula set out in the best practices procedures of various domestic and international bodies, including FATF.

July 9

SIC Circular 10 requires all banks to follow a series of requirements regarding checks, credit and debit cards, and bank cashier counters, in an effort to track the activities of accounts suspected of money laundering or terrorism financing.[104]

November 10

MENA-FATF issues its "Mutual Evaluation Report of the Lebanese Republic."[105] It states that although Lebanon has taken significant measures to improve its banking regime, there are still flaws. It criticizes the country's failure to promulgate adequate laws that implement UN Security Council Resolution 1267 (1999), which imposes limited air embargo and funds and financial assets embargo on the Taliban, as well as is failure to promulgate adequate implementing laws as to Resolution 1373 (2001), which calls upon states to freeze funds or terrorist assets or to study and implement the procedures taken by other countries to freeze funds.

100 http://www.sic.gov.lb/circular9.shtml.
101 INCSR 2008 (issued March 2009), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2009/vol2/116555.htm.
102 Promulgated on 31 October 2003 and entered into force on 14 December 2005.
103 http://www.bdl.gov.lb/circ/circpdf/83.pdf.
104 http://www.sic.gov.lb/circular10.shtml.
105 MENA-FATF, Mutual Evaluation Report – Anti-Money Laundering and Combating the Financing of Terrorism, Lebanese Republic, Nov. 10, 2009, available at http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf.

2010

February 27

SIC Circular 11 requires that all banks provide the SIC with statements of accounts relating to investigations of certain clients.[106]

March 1

The State Department issues the INCSR, including its section on Money Laundering and Financial Crimes (Volume II).[107] It notes: "Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by the World Bank at $7 billion per year. It has been reported that a number of these Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities." It also states the following:

From January through November- 2009, the SIC investigated 116 cases involving allegations of money laundering, terrorism, and terrorist financing activities. Out of the 116, two were related to terrorist financing. The SIC froze the accounts of 23 individuals and 12 companies totaling approximately $2,751,397. As of November 2009, nine cases were transmitted by the general state prosecutor to the penal judge. However, as of late 2009 there has not been any money laundering convictions.

July

The United States promulgates updates to its Lebanon Sanction Regulations, 31 CFR 549, pursuant to Executive Order 13441 (see August 1, 2007 above).[108] The regulations prohibit transactions and other activities, as well as the provision of financial or material support that "have the purpose or effect of undermining Lebanon's democratic processes or institutions" or otherwise contribute to the breakdown of the rule of law in Lebanon.

December

BDL Basic Circular 83 (releasing Basic Decision No. 7818, which sets out the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing under Law 318) is amended, addressed to banks and financial institutions.[109] It sets out regulations regarding the control of financial and banking activities for fighting money laundering and terrorist financing. These govern the following areas: (i) relations with foreign correspondent banks abroad; (ii) relations with customers and due diligence measures, including for foreign politically exposed persons; (iii) the adoption of a risk-based approach to dealing with customers and other entities; (iv) the creation of internal administrative bank bodies for monitoring operations for money laundering and terrorism financing; (v) the establishment of centralized computer systems; (vi) the establishment of external auditing procedures.

106 http://www.sic.gov.lb/circular11.shtml.
107 INCSR 2009 (issued March 2010), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2010/index.htm.
108 http://www.treasury.gov/resource-center/sanctions/Documents/fr75_44907.pdf.
109 http://www.sic.gov.lb/bdl.shtml.

2011

March

The U.S. Department of State issues the INCSR, including its section on Money Laundering and Financial Crimes (Volume II).[110] It reports that between January and November 2010, Lebanon carried out 11 prosecutions and achieved one conviction for money laundering. Between January and November, it also received 179 suspicious transaction reports.

May 21

BDL Intermediate Circular No. 262 (issuing Intermediate Decision No. 10725, which amends Basic Decision No. 7818) is addressed to banks and financial institutions, modifying the regulations that accompany Law No. 318.[111] Among other stipulations, it requires "each bank operating in Lebanon" to: (i) establish a specialized committee (Specialized Committee for Fighting Money Laundering and Terrorist Financing or AML/CFT Special Committee) comprised of: a Director General, the Head of the Risk Committee, the Director of Operations, the Head of the Internal Audit Unit, the Director of Branches, and the Head of the Unit; (ii) establish an AML/CFT Compliance Unit, to be headed by an individual with "sufficient experience" in fighting money laundering; (iii) appoint an AML/CFT Branch Officer to control the operations.

BDL Intermediate Circular 263 (releasing Intermediate Decision No. 10726 (May 21, 2011), which amends Basic Decision No. 8024 of January 11, 2002), is addressed to banks and exchange institutions.[112] The circular sets out anti-money laundering and counter-terrorism financing provisions regarding the transfer of "cross-border transportation of currency, including cash, bullion, and metal coins."

BDL Intermediate Circular 264 (releasing Intermediate Decision No. 10727 (May 21, 2011), which modifies Basic Decision No. 7933), is addressed to exchange institutions.[113] Among other stipulations, it requires exchange institutions to implement "sufficient and efficient procedures" to combat money laundering and terrorism; to appoint a Compliance Officer, who will attend AML/CFT training sessions, establish a computerized archive for information on money laundering and terrorist financing operations; and periodically verify the skills and ethical qualifications of its employees.

May 27

SIC Circular No. 12 modifies Circular No. 5 (dated April 29, 2004) to annex several additional requirements for banks and other financial institutions, including: to ensure that when establishing a relationship with a foreign correspondent bank, the bank is not a shell bank, has a good reputation, is subject to "good control and implement sufficient and appropriate procedures with regard to fighting money laundering and terrorist financing."[114] It outlines the parameters of a KYC Form that must be adopted as well as the basic provisions for checking on the identity of customers. Circular 12 further sets out the requirements (i) to establish a "Special Committee for Fighting Money Laundering and Terrorist Financing;" (ii) to establish a "Compliance Unit;" (iii) to establish a "computerized central archive for collected information; (iv) to utilize specialize software programs for checking customers who open certain kinds of accounts; (v) to appoint an officer responsible for control operations; (vi) to ensure continuous training of relevant staff and bank officers on AML/CFT measures; (vii) to prepare a procedure guide regarding money laundering and terrorist financing regulations; (viii) to maintain a risk-based to approach to classifying customers and operations.

110 INCSR 2010 (issued March 2011), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2011/vol2/156375.htm#lebanon.
111 http://www.bdl.gov.lb/circ/intpdf/int262_en.pdf.
112 http://www.bdl.gov.lb/circ/intpdf/int263_en.pdf.
113 http://www.bdl.gov.lb/circ/intpdf/int264_en.pdf.
114 http://www.sic.gov.lb/circular5.shtml.

SIC Circular No. 14 requires external auditors of Category 'A' Exchange Institutions to prepare an annual report and to submit it to the SIC Secretariat by the end March of the audited fiscal year.[115] It states that the report should evaluate the institutions' compliance with KYC rules, recording-keeping, and provision of notice to the BDL or the SIC regarding cash transfers above USD 10,000 or suspected money laundering or terrorism financing. It also includes a five-year document retention requirement.

August 22

BDL Intermediate Circular No. 272 (releasing Intermediate Decision No. 10727 (May 21, 2011), which modifies Basic Decision No. 7933) is addressed to exchange institutions.[116] It imposes the requirement that exchange institutions established after May 2011 must be able to provide the requisite documentation to verify that the highest level officials of various public and private companies or any person similarly charged with managing such exchange institutions have completed BDL-approved training sessions, particularly in the AML/CFT field.

BDL Intermediate Circular No. 273 (releasing Intermediate Decision No 10788, which repeals and replaces Basic Decision No. 6213 of June 28, 1996, Paragraphs 2-3, Article 2) is transmitted to banks, financial institutions and financial intermediation institutions.[117] It restricts financial intermediation institutions from executing exchange operations and the cross-border transportation of cash as well as from executing incoming transfers on behalf of customers in favor of third parties in Lebanon or abroad valued at USD 1,500 or more.

BDL Intermediate Circular No. 274 (issuing Intermediate Decision 10789, amending Basic Decision No. 7136 of October 22, 1998, Article 7 bis) is addressed to financial institutions.[118] It replaces the language in Article 7 bis with language that prohibits financial institutions from undertaking exchange operations, except under limited circumstances; undertaking cross-border transportation of cash, coins and bullion; receiving funds from customers; and executing incoming transfers on behalf of customers in favor of third parties in Lebanon or abroad valued at USD 1,500 or more.

115 http://www.sic.gov.lb/circular14.shtml.
116 http://www.bdl.gov.lb/circ/intpdf/int273_en.pdf.
117 http://www.bdl.gov.lb/circ/intpdf/int273_en.pdf.
118 http://www.bdl.gov.lb/circ/intpdf/int274_en.pdf.

2012

March 1

The State Department issues its INCSR (Volume II)[119], and states that Lebanon has promulgated enhanced due diligence procedures for domestic politically exposed persons (PEPs). It also notes Lebanon's failure to convict any individuals or entities in money laundering criminal prosecutions, particularly as a result of "lackluster coordination" among law enforcement bodies. The Lebanon SIC received 151 suspicious transaction reports from December 2010 until October 2011, and the Internal Security Forces received 49 SIC referrals and 22 Interpol notices to investigate money laundering and terrorist financing. The State Department also noted that between December 2010 and October 2011, there were seven criminal prosecutions for money laundering, with no convictions.

April 5

BDL Basic Circular No. 126 (issuing Basic Decision No. 10965) is addressed to banks and other financial institutions concerning banks and financial institutions and their correspondents.[120] It requires these entities to "implement the regulations for the control of financial and banking operations for fighting money laundering and terrorist financing," particularly for those customers seeking to engage in cross-border transactions or to utilize correspondent banks. These regulations require the implementation of proper KYC rules; updating of databases for money laundering and terrorist financing operations; and notifying the SIC of any operations that appear to contravene these obligations.

Circular No. 126 requires: (i) that banks and financial institutions "be fully informed of the laws and regulations" that govern their foreign correspondents, and ensure that their dealings conform with the "laws, regulations, procedures, sanctions, and restrictions" of "international legal organizations" or the "sovereign authorities" in the home countries of their sovereigns; (ii) that banks and financial institutions apply heightened due diligence measures to vet the identity of the economic right owner in the operations conducted; (iii) and control over transactions on payable-through accounts and the strict implementation of enhanced due diligence measures regarding concerned customers.

July18

The Financial Times prints "Smart Sanctions Take Toll on Syria," an article in which Lebanese banks are recognized for their "quiet" implementation of multi-lateral sanctions and reduction of lending operations in Syria.[121]

July 19

FinCEN releases its most recent advisory identifying those jurisdictions that have deficiencies in their AML / CFT regimes.[122] Lebanon is excluded from this list, and in fact, it has remained excluded from such FinCEN advisories since the withdrawal of its initial designation in 2002.

119 INCSR 2011 (issued March 2012), Money Laundering and Financial Crimes, available at http://www.state.gov/j/inl/rls/nrcrpt/2012/vol2/184116.htm#Lebanon.
120 http://www.bdl.gov.lb/circ/circpdf/126_en.pdf.
121 http://www.ft.com/cms/s/0/9faf8274-d0bf-11e1-8d1d-00144feabdc0.html#axzz25oJi1kzx.
122 FinCEN, Guidance to Financial Institutions Based on the Financial Action Task Force Publication on Anti-Money Laundering and Counter-Terrorist Financing Risks, http://www.fincen.gov/statutes_regs/guidance/pdf/FIN-2012-A007.pdf.

July 31

The U.S. Department of State issues its annual "Country Report on Terrorism,"[123] and acknowledges that the SIC had released several circulars amending the regulations that control financial and banking operations for countering money laundering and terrorist finance; all deal with exchange institutions and/or transactions with exchange institutions, or the cross-border transportation of cash, metal coins, and bullion.

The Country Report, noting that the Ministry of Interior is responsible for monitoring the finances of all local registered nongovernmental organizations, also highlights the inconsistent application of such controls. It also points out that the SIC and the BCC "maintained an additional and generally more effective layer of scrutiny for those NGOs that utilize the Lebanese banking system." The two bodies achieve this end by monitoring the transactions and transfers to and from the accounts of NGOs.

123 Country Reports on Terrorism (2011), http://www.state.gov/j/ct/rls/crt/2011/195544.htm.

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