

THE LEBANESE  
BANKING SECTOR

**IN THE FIGHT  
AGAINST MONEY  
LAUNDERING AND  
THE FINANCING  
OF TERRORISM**

A number of articles published recently in some international journals, newspapers and magazines, have highly misrepresented, and harmed intentionally or unintentionally the image and reputation of the Lebanese banking system. The articles largely focused on the subject of money laundering and the financing of terrorism. Thus, the criticism highlighted the growth of deposits tying it wrongfully to ill-gotten money that is being channeled to finance terrorism and the proliferation of nuclear weapons by Iran.

This document highlights the clean money sources of deposit growth, analyzes and confirms the compliance of the Lebanese banking sector, regulators especially the central bank and legislators with international rules and regulations governing the international financial and banking systems, and addresses the latest developments concerning the Lebanese banks' coordination and cooperation with international banks and governments. The aim is to shed light on issues raised in the international media to create awareness of the cooperative role played by banks in Lebanon in the anti-money laundering and the counter-financing of terrorism (AML/CFT) arena.

**First**, there is no apparent awareness and grasp of the wide social and economic network between Lebanon's Diaspora and Lebanese residents and the impact and stimulus this network has on the performance of the Lebanese economy and the growth of deposits at banks.

Lebanon has a huge and diversified Diaspora, which materially started with the First World War and is continuing, with the number of Lebanese citizens and Lebanese dissidents residing abroad much exceeding the local population. We have as such the Gulf and Arabian Peninsula community, the West African emigrants, the Latin America group, and the emigrants to the industrialized New World in the U.S.A, Canada, Australia and Europe. These communities have a genuine business abroad and kept very strong ties with Lebanon. A very large population of professional Lebanese work in the main regional and international commercial and financial centers with thousands being very successful, among other fields, in finance and banking, marketing and advertising, legal and consulting services. All these communities have a good reputation in their host countries and enjoy a distinguished vitality and efficiency and thus contribute to the economic,

financial, social and cultural activities of those countries. They are also a main source of financial inflows and remittances to their families, due to the important social and economic bounds with the home land, or to their own accounts, as they still maintain assets and equity and hope to return sometimes in the future or at retirement. The inflow of steady and occasional funds and remittances is channeled through banks to finance consumption, or financial and real assets investment, or to start up a business or support the expansion of an existing one. When times are more risky at home, funds will flow out of the country; when times are rosy at home or risky overseas, assets will flow into Lebanon.

This largely explains the acceleration and deceleration in the growth of deposits at banks. A high rise in the rate of growth is usually associated with a positive outlook for Lebanon and good profit opportunities or unfavorable economic or financial climates in one or more of the Diaspora zones; reverse conditions similarly lead to a drop in the rate of deposit (and investment flows) growth in Lebanon. This has been happening since many decades. There is nothing exceptional in this respect as depositors and investors from the various Diasporas as well as local residents act rationally, moving deposits and assets to safer havens in times of crises and taking advantage of the interest rate differential, good opportunities, and risk/return tradeoff in normal times.

**Secondly**, Lebanon's banking system initiatives and compliance with the anti-money laundering and the counter-financing of terrorism (AML/CFT) had been an on-going process. They are a core part of the historic commitment to international regulations and standards and adherence to best international banking practices and guidelines. In fact, Lebanon, more than sixteen years back, has taken bold organizational, supervisory and legislative initiatives and concrete measures for fighting money laundering and combating the financing of terrorism. This stemmed from the rising awareness of the threats of money laundering and terrorism financing to the survival of the individual banking institution and the stability of the banking sector as a whole manifested by the potential financial loss and outflow and reputation damage that could result from using the banks as a channel for facilitating such illegal activities.

Even before the enactment of Law 318 by the Lebanese Parliament on April 20, 2001 - incriminating money laundering activities and permitting the efficient

combating of such operations and the cooperation with the international community on this issue - Lebanese banks have worked hard to fight money laundering activities through their institutions by putting a lot of efforts in training their employees and introducing tight internal procedures as well as in coordinating with concerned governmental agencies. Banks in Lebanon elaborated and signed in 1997 a Due Diligence Convention: on the Commitment by Banks to Combat the Laundering of Illegal Drug-Trade Funds.

The law 318 was the fruit of the vigorous efforts undertaken by the Lebanese monetary and financial authorities, with the cooperation of the Association of Banks in Lebanon. It established the Special Investigation Committee (SIC), the Lebanese Financial Intelligence Unit (FIU). In addition to investigating suspicious cases of money laundering, the SIC's responsibilities include also playing a transparent role among other financial investigation units (FIU's) within the Egmont Group, strengthening cross border cooperation and information exchange. All banks operating in Lebanon are subject to a special audit by the SIC. Law 318 also granted powers to the SIC enable it to lifting banking secrecy and to exchanging information with competent local or foreign authorities for the purpose of meeting the law objectives.

The Financial Action Task Force on the laundering of money (FATF) in as early as 1990 established its 40 recommendations largely based on fighting illegal money from trading in narcotics. Thus, Lebanon signed in 1995 the Vienna convention on traffic in narcotics drugs. Lebanese legislators, regulators and banks have since always addressed, supported, and implemented the world initiatives especially since 2000 when the FATF developed 25 criteria emanating from the 40 recommendations. In addition to the many strengths enjoyed by the banking sector in meeting 15 out of the 25 criteria, Lebanon tightened its rules on the licensing and creation of financial institutions, customer identification, commercial law requirements for registering businesses and legal entities, and the obstacles to international cooperation by administrative and judicial authorities. During that same year, the Lebanese Parliament passed Law 318 'Fighting Money Laundering' and amended the Law in 2003 as a result of the 9 additional FATF

recommendations on terrorist financing to make this type of financing and contribution to terrorist acts and organizations an offense. In June 2002, FATF announced that Lebanon has become a member in fighting money laundering. In fact, due to the strict measures adopted by the Lebanese regulatory body, the US Treasury Department notified in July 2002 the US financial institutions that they could relax money laundering scrutiny on Lebanon. In July 2003, the Egmont group of FIUs established in Brussels welcomed Lebanon as a member country. In 2004, Lebanon is a key founder and became the first president of MENA-FATF. Additionally, Lebanon is excluded from a list of 40 jurisdictions designated by FATF (last report of February 2012) as either subject to counter-measures by the international regulatory bodies, or ones that have not 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 additional evidence to its continued total commitment to international norms, the Lebanese government approved in the middle of March 2012 three important project laws and submitted them to the Parliament. They include amendments of the law on fighting money laundering (number 318/2001), declaring of cross-border money transport, and exchanging tax information.

The government introduced fundamental amendments to **law 318**. It is worthy to mention that the law 318 solved since 2001 the banking secrecy concern by granting the SIC the power to review any bank account and thus to grant the bank the ability to disclose any information to third parties like Foreign FIUs. It has enlarged its scope to include most financial crimes, including the protection of intellectual property. It has enlarged the obligation of AML Reporting to new categories and sectors (property developers, lawyers, and others); those amendments are in line with the commitments made within the framework of the FATF's recommendations.

The government included in the bill of cross-borders money transfers a definition of money which includes in addition to cash, other means of transactional payment such as commercial debentures and financial paper. It adopted a dual system that imposes reporting sums exceeding \$15,000 and required disclosure based on the demand of the Customs authorities. The

report or disclosure includes details on the money transferor, owner and receiver, as well as its source and means of transportation. The government cited, as necessitating causes for the new law, the need for effective participation in the efforts of the international community in fighting money laundering and the financing of terrorism. This law was also passed to meet the ninth FATF recommendation stating that every government should take measures to track cross-border cash transfer going in and out.

The government also approved and sent a law to the Lebanese parliament for approval regulating **exchanging information related to tax evasion and fraud**, giving Lebanon the legal basis to do so and to abide by OECD norms adopted by G20 countries.

As for operating Lebanese banks, they have been constantly year after year strengthening the tools, systems and procedures, for fighting money laundering operations and the financing of terrorism backed by a clear and strong commitment at the highest corporate governance levels. This is reflected in creating at each bank a dedicated, skilled and resourced compliance department and in abiding by the applicable AML/CFT law, the circulars issued by the Central Bank and the Special Investigation Commission in this regard, and by the international standards including the US ones of "Know Your Customer (KYC)" to prevent the Lebanese banking sector from being used for illegal or criminal operations. The KYC procedures have been improved over the years and now all customers' names are screened against databases provided by worldwide reputable specialized firms and against local watch-lists provided by the Special Investigation Commission. Customers are required to identify the "source of their funds". Transactions that are inconsistent with the normal line of their businesses and suspected for hiding illegal activities are disclosed and reported to the SIC. It is to mention that the banks' customer data base is segmented into three risk levels in accordance with the risk-based approach formula as included in the local and international best practices especially FATF based on the Central Bank of Lebanon circular 190/2010. In addition, the staff of the banking sector is constantly undergoing intensive and continuous international as well as domestic training sessions, seminars, workshops and forums covering both international and local laws and regulations fighting

money laundering and terrorism financing. The domestic training seminars are held by the Central Bank, the Association of banks in Lebanon, and the banks themselves. More importantly, Lebanese banks are regularly audited by SIC and by their external auditors that are the leading international auditing firms. MENAFATF audits the Lebanese government regulations regarding AML/CFT and during their mission they visit and assess some banks.

**Thirdly**, the Lebanese banking system has always been characterized since the 1950's by strong international openness, supported by the absence of restrictions on capital flows and on foreign exchange transactions, in addition to the absence of discrimination between foreign and domestic agents. Of the 54 commercial banks in the country, 12 are foreign owned, and 12 of the domestic banks have major foreign equity stakes in them. Also, the Lebanese banking system interacts efficiently with around 306 foreign correspondent banks spread in 111 major cities around the world, including major US and European banks and operate with those global correspondent banks on the same principals, rules and controls especially in the area of AML/CTF. International openness is also reflected by the international and regional reach of Lebanese banks, for there are currently 17 Lebanese banks in 31 countries around the world through 94 units (representative offices, subsidiaries and associates, sister bank, branches), running assets close to 20% of their total. Associate, subsidiary and sister banks have 237 branches in these countries. It is no exaggeration to say that the international presence of foreign banks in Lebanon and the parallel spread of Lebanese banks abroad are a seal of international approval and credibility of the health, cleanness, and vitality of Lebanese banks.

The Lebanese banking sector is abiding by international sanctions taken to deter any infiltration or ways to get around such sanctions. Lebanese banks, whether in Lebanon or abroad, are keen on maintaining good and clear relations with correspondent banks. Therefore, they will not undertake any activity in Lebanon or abroad that might expose correspondent banks and jeopardize the relationship with them by involving them in situations contravening the regulations in force in their respective countries.

Lebanese banks are duty-bound to accommodate US correspondent banks by adopting the following measures: 1) only executing transactions permitted

or licensed by US Treasury or US Department of Commerce. 2) Lebanese banks are duty-bound as well to accommodate the US correspondent banks by adopting the following required measures: a) ensuring that they do not maintain any correspondent account for an Iranian-linked financial institution, and the Swift Relationship Management Application with those financial institutions has been cancelled; b) 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 of Lebanon clearing system.

Within the same perspective, The Central Bank of Lebanon issued on April 5, 2012, in support of measures practiced by the banking sector a Basic Circular Nb. 126, aiming to prevent reputational risks to which Lebanese banks and financial institutions might be exposed by conducting their operations through subsidiaries or sister companies or by way of correspondents' banks abroad. In addition to other requirements mentioned in this basic circular, the Lebanese banks have to be fully informed of the laws and regulations governing their correspondents' banks abroad, and deal with the latter in conformity with the laws, regulations, procedures, sanctions and restrictions adopted by

international legal organizations or by the sovereign authorities in the correspondents' home countries. Within this scope, Lebanese banks and financial institutions must adopt the utmost accuracy and due diligence to vet the identity of the economic right owner in the operations conducted. This circular is applicable to banks operating in Lebanon and their subsidiaries and branches abroad.

**Finally**, the Lebanese banking system was established based on the US-led free enterprise system embracing its regulations and was the first and only remaining banking hub operating on these standards in the Mediterranean Levant. This system is in line with the USA Patriot Act including section 311. Its existence and prosperity is a necessity for regional stability and the international payments system. It would be worth to highlight that most of the allegations brought up targeting the Lebanese banks not only lack evidence and sincerity but are also destabilizing and inconsistent with what the US administration is announcing repeatedly regarding the support of Lebanon. In a press release dated June 14, 2012, following Secretary Clinton's call with Lebanese Prime Minister Mikati, US secretary of State reiterated the US position and I quote: "Secretary Clinton emphasized the United States' commitment to a stable, independent, and Sovereign Lebanon".

