



**BOARD OF
DIRECTORS
REPORT**

Part 2

**CIRCULARS OF
BANQUE
DU LIBAN**

In 2021, the Association of Banks in Lebanon continued to follow-up the regulatory and legislative issues as well as other files related to the banking profession with the monetary and supervisory authorities and in cooperation with banks' administrations.

THE CONTENT OF SOME OF THE MOST IMPORTANT CIRCULARS AND GUIDELINES ISSUED IN 2021 AND THE FIRST HALF OF 2022

• Exceptional measures on foreign currency transactions and cash withdrawals

Since the current exceptional circumstances that Lebanon is going through have greatly affected the foreign currency exchange rate, BDL issued **Basic Circular 157 in May 2021** which stipulates that banks shall automatically participate in the Electronic Exchange Platform developed by Banque du Liban (hereafter "the Platform"), upon an invitation from the BDL Foreign Currencies Unit on an IP address allocated to each bank. When executing the transactions previously mentioned, banks must enter all the information required for each transaction, and to confirm it via the Platform-related Sayrafa application. Also, banks have to obtain a document signed by the customer in which banking secrecy on the transaction executed for the latter's benefit on the Platform, is lifted in favor of Banque du Liban and the Banking Control Commission of Lebanon.

Banks may execute exchange transactions in cash, based on the market supply and demand, on condition that neither margins between the selling and buying prices nor unusual commissions of any kind are adopted, and which in all cases may not exceed 1% of the buying price.

And based on the right of Banque du Liban to directly buy and sell foreign currencies from the public, in exceptional cases and in agreement with the Minister of Finance, BDL issued **Basic Circular 161** in December 2021 to provide banks with US dollar banknotes, at the USD/LBP daily exchange rate applied to trading operations performed the day before on Sayrafa, within the amount remaining from the current monthly limit specified for each bank. The deadline for implementing this circular was extended to 31/1/2022 through **Intermediate Circular 607**, then to 28/2/2022, subject to renewal, according to **Intermediate Circular 612** issued in January 2022. In addition to the effects of Circular 161, BDL issued a statement in January 2022 announcing the increase of the monthly quota, so that banks can perform the operation without a specific ceiling. BDL extended the deadline for Basic Circular 161, successively, till 31/5/2022, renewable through each of the **Intermediate Circulars 615, 618, and 619**.

BDL had issued Basic Circular 151 in 2020 that stipulates the following: in case customers, who benefit from Basic Circular 148, request to perform cash withdrawals or cash transactions from their accounts or receivables in US dollars or in other foreign currencies, banks operating in Lebanon shall pay their equivalent in

Lebanese pounds at the market rate which was modified to 8,000 LBP for one USD (previously set at 3,900 LBP), within a monthly limit of 3,000 USD for each account, as per Intermediate Circular 601 issued at the end of 2021, provided they obtain the concerned customer's approval. Extension of this decision was made through Intermediate Circulars 581, 596 and 601 until 30/6/2022. Intermediate Circular 601 had cancelled the article stipulating that all other operations performed by banks with their customers in USD shall remain subject to the exchange rate set by Banque du Liban for its operations with banks. Then Intermediate Circular 610 issued at the end of 2021 abided by this article again.

• Exceptional measures for the gradual repayment of foreign currency deposits

In June 2021, BDL issued the **Basic Circular 158** that aims to gradually repay foreign currency deposits. In August 2021, **Intermediate circular 592** was issued to amend Article 1 that ensures the gradual repayment of foreign currency deposits in accounts opened prior to 31 October 2019. The circular also mentioned the conditions and mechanism to be followed for its implementation as follows: the total balances of all foreign currency credit accounts for residents or non-residents will be taken into consideration, including related accounts in which that person is a party, participant, or beneficiary (e.g. joint accounts titled with an "and" or an "and/or"), provided that these balances are calculated as closed on 30 June 2021, only if this

amount is still available when the account holder benefits from the provisions of this decision, and that it does not exceed the balance available on 31 October 2019.

An amount equivalent to, or below USD 50,000 shall be transferred to the Special Sub Account, depending on the funds available in the accounts held by the account holder in USD or in any other foreign currency at the concerned bank.

Withdrawals from the amount transferred to the Special Sub Account shall take place as follows: a monthly amount of USD 400 paid in banknotes to the account holder, and/or by way of an outgoing international transfer and/or bank cards to be used in Lebanon or abroad and/or deposit in a Fresh Account, provided that the total annual amount that may be withdrawn in USD from all banks does not exceed USD 4,800. Additionally, a monthly amount equivalent of USD 400 in LBP, at the rate of 12,000 LBP for one USD, 50% of which is paid in banknotes to the Account Holder, and 50% through bank cards. **Intermediate Circular 597 issued in September 2021** amended few articles of Basic Circular.

In this context, the Banking Control Commission (BCCL) issued **Memorandum 4/2021** addressed to banks, requesting the preparation of a mechanism to implement Basic Circular 158 and explain it to customers as well as the method for submitting reviews or complaints by them. BCCL issued later on **Memorandum 8/2021** requesting banks to declare some in-

formation related to the aforementioned circular on a weekly and monthly basis within the deadlines set for sending weekly and monthly statements to BCCL.

- **Exceptional restrictions on some banking operations**

In August 2021, **Basic Circular 159** prohibited banks operating in Lebanon from buying foreign currencies in the parallel market. However, they may buy, at market rate, foreign-currencies that are directly transferred from abroad to their customers, and solely for medium and long-term investment purposes, or to improve liquidity ratios, or to pay commitments abroad, provided that these operations are recorded on the Electronic Platform for Exchange Operations. The circular also forbids buying and selling checks and bank accounts in foreign currencies for their own account, whether directly or indirectly. Then, **Intermediate Circular 608, issued in December 2021**, prohibited banks from dealing with their customers in foreign currencies other than “fresh money”, except at the rate set by Banque du Liban for its operations with banks (currently at an average value of 1,507.5 Lebanese pound per USD) and the rate set in Basic Circulars 151 and 158 for the purpose of implementing their provisions.

- **Banks carrying out administrative operations and services**

Basic Circular 160, issued in October 2021, allowed banks operating in Lebanon to impose

fees and commissions for carrying out administrative operations and services for the benefit of any natural or legal person. The cooperation should be in writing and in advance between the bank and the person who will benefit from such operations and services.

- **Opening of bank accounts and average credit interest rate**

During the third quarter of 2019, BDL had issued **Basic Circular 147** relating to the opening of bank accounts and amended it by virtue of Intermediate Circular 536. It stipulates that banks are required, when opening a bank account for a natural or a legal person residing in Lebanon in order to ensure the running of the latter's commercial, professional, or service businesses and activities, to obtain from that person a copy of the registration certificate at the Ministry of Finance. Also, banks must comply with the interest rate ceiling set for the deposits they receive or renew after 4 December 2019, as follows: 5% on foreign-currency deposits and 8.5% on deposits in LBP. Interests on foreign-currency deposits are to be paid as follows: 50% in the currency of the account and 50% in LBP. This circular would be applied for 6 months and the time limit was extended till 30/6/2022 as per **Intermediate Circular 609**.

BDL also issued **Intermediate Circular 579** during January 2021 to require banks that receive deposits or transfers which source is donations denominated in USD or in any other foreign currency from international institutions

and donors in order to distribute them to the beneficiaries, to inform the Banking Control Commission (BCCL) of these amounts and the exchange rate applied if they were converted to LBP.

Intermediate Circular 611 issued in January 2022 brought an addition to Basic Circular 147 related to the opening of bank accounts whereby it required banks not to reject checks deposited by customers in their current bank accounts.

- **Exceptional Exemptions from the Mandatory Reserve and Banks Mandatory Placements (Basic Circular 150)**

BDL **Basic Circular 150** issued in April 2020 exempted banks from mandatory placements at BDL against inward transfers in foreign currencies and/or cash receipts in foreign currencies received after April 9, 2020. Then **Intermediate Circular 580** requested from banks to deposit 100% of the value of the above-mentioned funds in cash, either with them or in an account free of any obligations with their correspondent banks, knowing that the funds placed in the “special accounts” mentioned in Basic Circular 154 are not subject to this obligation, but rather to the decision according to which they were established.

BDL also issued **Intermediate Circular 586** in June 2021 in order to lower the mandatory reserve that banks are required to deposit with BDL in return for the interest granted by the lat-

ter on foreign currency term deposits, so that it becomes 14% instead of 15%, with the aim of allowing the use of about one billion and 200 million dollars, thus returning depositors' money at a ratio ranging from 85% to 90%. In this regard, the Association of Banks in Lebanon also stated that this reduction, which affected the mandatory reserve rate on foreign currency deposits, requires BDL to return those amounts to depositors, who have the right to them, as it is not acceptable to use them for subsidies. This reduction also targeted the mandatory reserves on foreign currency deposits of Islamic Banks by virtue of **Intermediate Circular 590**.

- **Application of the International Financial Reporting Standard 9 Requirements (IFRS 9) and Building of Provisions**

In light of the exceptional circumstances the country is going through, BDL had issued Intermediate Circular 567 in 2020 requiring banks and financial institutions not to downgrade the classification of customers who were negatively affected by Covid-19, in the event of a delay in paying their loans or if they exceed the ceilings of the facilities granted to them, starting 1/2/2020 until 30/6/2021 according to **Intermediate Circular 584**. Then this date was reported to 31/12/2021 (by virtue of Intermediate Circular 594). Intermediate Circular 584 also stated the need to conduct a financial assessment of the aforementioned clients in the future, provided that the expected credit loss provision is calculated based on specified classifications

and that it is fully recorded in the profit and loss statement for the year 2021.

Intermediate Circular 600 issued in 11/2021 stated that provisions on financial assets & on off-balance sheet financial commitments must be recorded immediately in their respective currencies. Furthermore, the circular noted that banks must take the appropriate measures to cover for negative foreign currency positions stemming from provisions constituted in foreign currencies.

- **Securing Foreign Currencies Required for Imports in Productive and Vital Sectors**

The exceptional circumstances Lebanon has been facing drastically impacted the financing of basic food products and raw materials imports related to the agro-food industry. Therefore, BDL added in **Intermediate circular 557**, that was issued during the previous year, the possibility for banks operating in Lebanon to ask BDL to provide the needed foreign currencies to cover the needs of importers and producers of basic foods and raw materials used in the agro-food industry in accordance to an eligibility list prepared by the Ministry of Economy and Trade for that purpose. The exchange rate is set at 3,900 L.L. for the dollar according to Intermediate Circular 582 issued in May 2021, knowing that this article expired on 27/5/2021.

Given the difficulties the country has faced and

by which some banks were hampered in terms of issuing letters of credit required for the imports, and taking into consideration the importance of preserving the public interest by ensuring foreign currencies under more advantageous conditions for the productive and crucial sectors, BDL issued **Intermediate Circular 556** in May 2020, under which banks can resort to BDL to conduct foreign exchange operations and finance 90% of the import bill of raw materials for licensed industrial institutions in foreign currency. **Intermediate Circular 585** issued in May 2021 added to the previous circular industrial equipment that enters into the core of the concerned industry, with a total limit of the remaining balance of the amount previously specified at 100 million US dollars or the equivalent in foreign currencies, knowing that the customer would not benefit from the provisions of this article if the size of the import transaction exceeds USD 300,000 or the equivalent in other foreign currencies. In addition, the manufacturing export companies benefiting from the provisions of this circular must repatriate all foreign currencies resulting from export operations to a fresh account with concerned bank in Lebanon.

In the same context, BDL issued **Intermediate Circular 593** to amend Basic Circular 23 whereby banks can resort to BDL to conduct foreign exchange transactions exclusively dedicated to the import of fuel subsidies (gasoline, diesel, and gas), and this based on the value of the respective invoice. In addition, the circular stipulates that banks must request cli-

ents who are willing to import goods to settle the required threshold in LBP banknotes at the applicable exchange rate specified on the electronic trading platform "Sayrafa" for the import of fuel subsidies. As for the exchange rate set for the import of wheat, medicine, medical supplies, baby formula and medical products that are used to manufacture medicine, it would be at LBP 1,507.5 for the dollar. Subsequently, the concerned bank must then deposit said amounts at BDL in the form of banknotes in order to secure the required foreign currency to conduct the import operation.

- **Electronic Platform for Exchange Operations (Basic Circular 5 for Exchange Institutions)**

In May 2021, BDL issued **Intermediate Circular 583** to amend Basic Circular 5 addressed to exchange institutions so that the latter, registered with BDL, must buy and sell foreign currencies based on supply and demand in the market, and must refrain from applying out of the ordinary margins between the bid and ask price or any exaggerated commissions that exceed 1% of the purchase price. It also added the possibility of downloading the "Sayrafa" user guide. **Intermediate Circular 587** issued in June 2021 added that every exchange institution has to specify on a daily basis its' daily opening and closing cash balances in local and foreign currencies on the platform, noting that the foreign exchange unit at the Central Bank is in charge of matching the data.

- **Fighting Money Laundering and Terrorism Financing**

Regarding said subject, BDL issued in December 2021 a series of intermediate circulars, number **602, 603 and 604**, addressed to exchange institutions, financial intermediation institutions and credit counters, requesting them to conduct due diligence procedures for customers and beneficial owners, which include checking the identity of each of its permanent and transient clients, residents and non-residents, specifying the nature of their work, the purpose of opening the account and the source of funds.

Those institutions should also take appropriate steps to identify and evaluate the money laundering and terrorism financing risks and adopt a risk-based approach to classify customers and operations according to risk levels (limited, medium or high) and thus, put in place risk-based control measures and procedures and be strict in monitoring, particularly clients and politically exposed persons (PEP's) as defined by the FATF, their family members, close associates and high-risk transactions.

The above circulars mentioned the need to develop and implement an effective internal control system, which includes the appointment of a compliance officer at the management level with sufficient experience in this field in order to develop a guide to fight money laundering and terrorism financing, develop a KYC form, audit operations, verify documents and data and apply due diligence procedures.