2019 ML & TF National Risk Assessment
Summary

Foreword

Lebanon enjoys a free market economy, a vibrant financial sector and long-standing ties with the global financial system, which naturally expose any country to risks from illicit financial flows. The effective implementation of AML/CFT laws and regulations is thus necessary to disrupt criminal activity and mitigate money laundering and terrorist financing risks. The presence of robust risk-based AML/CFT supervision and strong enforcement measures are equally important. Efforts continue to be geared to this end, and Lebanon currently enjoys a comprehensive AML/CFT regime that safeguards both the financial and non-financial sectors from potential misuse. There is room for some improvements to advance the ongoing efforts to disrupt ML & TF activities and further mitigate risk. In this regard, the SIC - Lebanon's FIU, along with other AML/CFT stakeholders continue to work tirelessly to keep the regime at par with international standards. This in turn helps preserve the important role banks play in our economy, and ensures that Lebanon continues to be a safe and attractive country for both foreign direct investment and legitimate business.

Illicit proceeds from money laundering predicate crimes such as corruption and tax evasion deprive the government from desperately needed funds. The impact of such crimes on the economy and society is detrimental. The spillover effects from the neighboring conflict and the refugees' situation continues to affect Lebanon in many ways. Since the beginning of this conflict, numerous terrorist attacks killed and injured many Lebanese, and caused grave devastation. These are constant reminders of the importance of having an effective AML/CFT regime that tackles criminality and deprives terrorists from funds needed to execute their attacks and cause destruction. As ML & TF risks continue to evolve, so must our countermeasures and responses. To this extent, we have committed significant resources and continue to work with international partners on numerous initiatives, including participating in the work undertaken by the FATF, MENAFATF and the Egmont Group, as well as the CIFG within the Global Coalition against Daesh. Significant efforts also continue to be exerted locally, including important work on identifying ML/TF threats & vulnerabilities, as well as taking necessary risk mitigating measures.

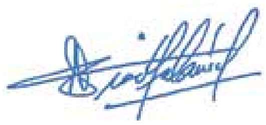
In 2013, the Special Investigation Commission highlighted to the Prime Minister the importance of complying with the 2012 strengthened FATF recommendations against which Lebanon would be assessed. The Prime Minister in turn requested from a number of authorities to cooperate with the SIC on the ML & TF National Risk Assessment. Backed by high level political commitment, the SIC led Lebanon's first NRA, and engaged Public sector authorities - members from the national AML and CFT Committees, including law enforcement and judicial authorities. Elements from the private sector were also approached for their input. In spite of the many hardships and challenges facing the country at the time, thanks to strong commitment and senior level involvement, Lebanon's first NRA was completed by year-end 2014. No report was made public, however findings were shared by various means with several stakeholders including elements from the private sector. Numerous mitigating measures were also taken including introducing major amendments to the prevailing AML/CFT Law.

In 2019 Lebanon's second NRA, which in many aspects takes reference from the FATF NRA guidance and builds on lessons and experiences learned from the first NRA, was concluded. It identified ML/TF risks based on threats and vulnerabilities, and resulted in risk mitigation measures being taken that included legislative, regulatory, and operational actions covering supervision and law enforcement. In the early stages of the second NRA and prior to its full completion, mitigating measures were taken with respect to a number of identified risks. Other risk mitigating measures were highlighted in a strategic plan that is being executed which pillars on four main lines of action:

1. Improve technical compliance where needed, i.e. legislative and regulatory updates.
2. Provide where needed certain authorities with resources to improve AML/CFT capacity.
3. Enhance AML/CFT risk-based supervision where needed, and align supervisory resources with the results of the 2019 NRA.
4. Improve the partnership with private sector reporting entities.

The effective combating of illicit financial flows necessitates addressing risks in due time. We are committed to improving the effectiveness of our AML/CFT regime by implementing the needed risk mitigation measures, including improving cooperation among various AML/CFT regime stakeholders and assessing risk on an ongoing basis.

Riad Toufic Salamé



Banque du Liban, Governor
Special Investigation Commission, Chairman
AML National Committee, Chairman
Beirut, September 2019

1. Introduction

The 2019 money laundering (ML) and terrorist financing (TF) national risk assessment (NRA) comes at an important time prior to Lebanon's second Mutual Evaluation. However, assessing risk on a country-wide scale is not a new concept for Lebanon, as the first NRA was concluded towards the end of 2014. Several risk mitigation measures were taken following the year-end 2014 NRA, and major changes occurred in areas covering legislative, regulatory, supervisory, and law enforcement.

A new AML/CFT law was adopted in 2015 to widen the categories of predicate crimes so as to cover all 21 predicate offences as per the Financial Action Task Force (FATF) standards and to include additional categories of reporting entities, namely lawyers, notaries and certified accountants. Furthermore, a law on the cross-border transportation of money was adopted, along with amendments to the penal code to strengthen the TF offence. Numerous AML/CFT regulations were issued to reporting entities, and targeted financial sanctions (TFS) mechanisms were implemented for United Nations Security Council Resolutions (UNSCRs) 1267 and 1373, and their successor resolutions. Improvements to risk-based AML/CFT supervision were made, and following a series of joint training events, information sharing and cooperation between the Financial Intelligence Unit (FIU) and law enforcement authorities (LEAs) was strengthened. Such mitigating measures, as well as more recent ones being taken as a result of the 2019 NRA to improve supervision, enforcement, monitoring and compliance, including the issuance of additional regulations on the beneficial owner (BO) beef up our AML/CTF regime, better position us to combat illicit financial flows, and effectively mitigate ML/TF risks.

In mid-2019, Lebanon's second NRA was concluded. The 2019 NRA was backed by high level political commitment and was led by the Special Investigation Commission (SIC), Lebanon's FIU. The SIC, supported by senior level involvement engaged stakeholders from both the public and private sector, as well as the two national committees for AML and CFT that encompass, alongside the SIC, a number of authorities (regulatory, supervisory, law enforcement and judicial). Private sector reporting entities from the financial sector as well as Designated Non-Financial Businesses & Professions (DNFBPs) were engaged for input and to obtain experts' opinions, as well as to gather needed information.

According to the 2019 NRA, some of the risks previously highlighted in the year-end 2014 NRA materialized, particularly in relation to the spillover effects from the neighboring conflict which resulted in an increase in terrorist and TF activities. The 2019 NRA ascertains that delays in implementing a number of risk mitigating measures concerning some previously identified high ML risk areas has resulted in a worsening situation, particularly with respect to corruption. While measures such as the implementation of the Foreign Account Tax Compliance Act (FATCA) and the OECD-Global Forum requirements mitigate risks associated with foreign origin tax crimes, money laundering risks associated with local tax evasion remained high. Other ML risks are of various risk levels, and some types of reporting entities and legal persons are inherently more vulnerable than others.

2. Methodology

The purpose of the 2019 NRA is to assess the risks facing Lebanon by identifying ML/TF threats and vulnerabilities, including gaps in the AML/CFT regime. The NRA aims to improve the said regime by shaping policy, legislative/regulatory actions, and priorities for operational decisions including resource allocation of supervisors, law enforcement and judicial authorities towards higher risk areas. It also aims to deepen their understanding of predicate crimes as well as maintain among them a common understanding of ML/TF risks. The NRA is also crucial and informative for reporting entities in the sense that it contributes to their understanding of threats and vulnerabilities, and feeds into their own risk assessments, mitigation efforts and overall implementation of the risk-based approach (RBA).

The methodology for the 2019 NRA takes reference from the FATF guidance on this topic and its three stages of identification of threats / vulnerabilities, analysis and evaluation. In line with this guidance, risk in the ML/TF context was considered as a function of three factors: threats, vulnerabilities and consequences.

Identification of Threats:
ML/TF threats are of domestic and foreign origin. They arise from predicate offences and related funds, terrorist activity and related financing, as well as from associated offenders.

Threats were identified by collecting quantitative data on yearly developments in predicate crimes under AML/CFT law no. 44 in order to decide whether or not proceeds might be laundered. Data on estimated proceeds of crime from the FIU, LEAs, and government authorities in addition to growth in ML/TF cases of local/foreign origin were reviewed, along with open source information. The work done included among other things information obtained via surveys, in addition to the review of Suspicious Transaction Reports (STRs), Requests of Assistance (ROAs), Spontaneous Disclosures (SDs), ML/TF cases & typologies, national list designations in connection with terrorism / TF, prosecutions, and convictions. Qualitative data and opinions from experts were also sought, including when quantitative data was unavailable or believed to be either incomplete, inaccurate, or not fully reliable.

Identification of Vulnerabilities:
Vulnerabilities are weaknesses in the AML/CFT regime that threats can exploit. In a broad context, they are usually associated with the main characteristics of a country such as the level of corruption, weak government reach in certain areas, size of the informal economy, the prevalence level of organized crime, capacities of AML/CFT authorities in addition to reporting entities' AML/CFT systems/controls, and the attractiveness of products/services for ML/TF purposes.

Vulnerabilities were examined in the context of the Political, Economic, Social, Technological, Environmental/Geographical & Legislative factors (PESTEL) that ultimately affect Lebanon's AML/CFT regime. Financial sector reporting entities and DNFBPs' size/economic significance, products/services offered, prevalence of local and foreign origin ML/TF cases, customer base, geographic reach or presence, as well as delivery channels were reviewed. Qualitative data were also reviewed from the last mutual evaluation report and follow up reports, supervisory reports, reporting entities' own risk assessments, and from the FIU, law enforcement and prosecution authorities. Legal persons and arrangements, including Non-Profit Organizations (NPOs) were also covered.

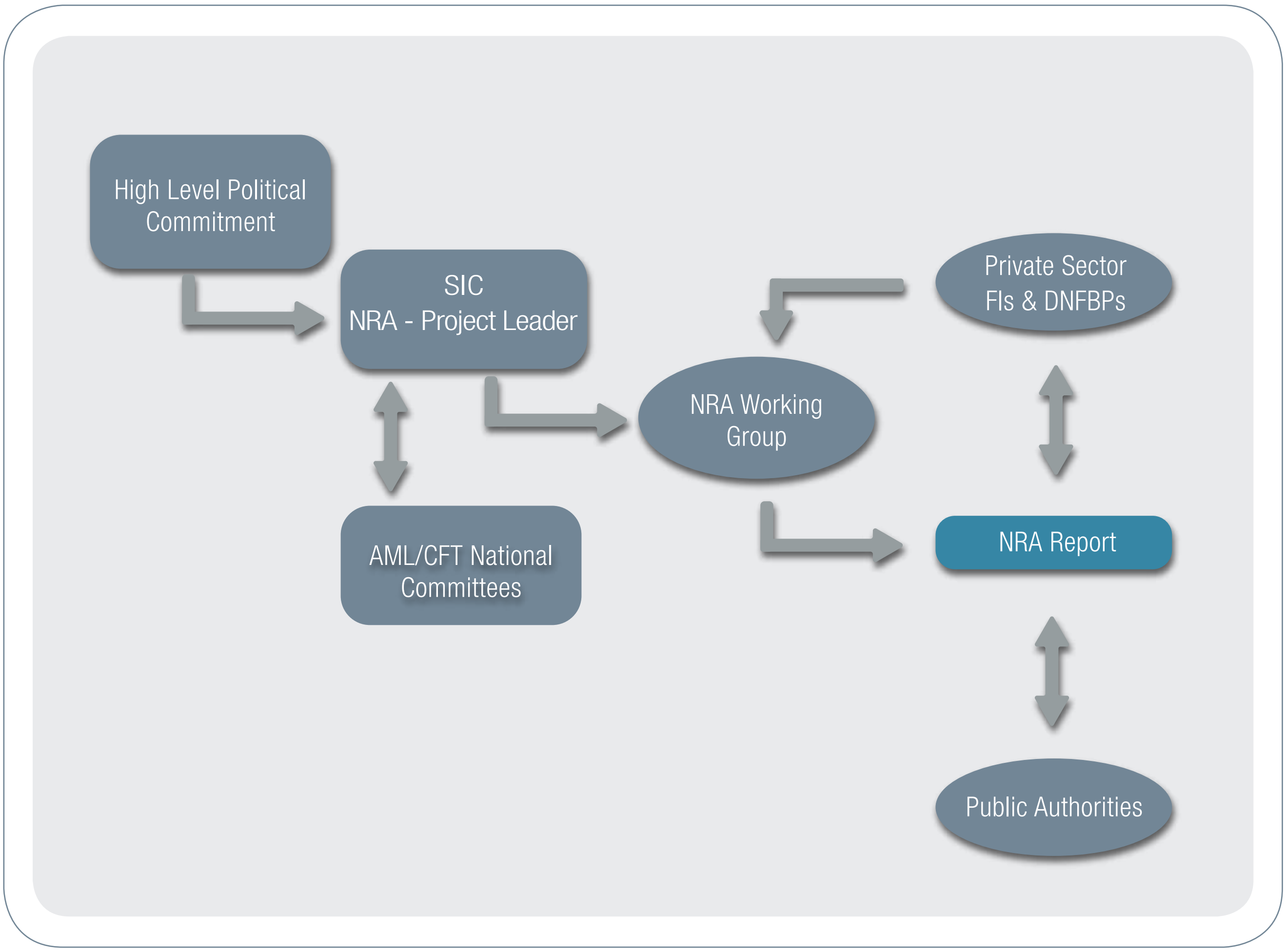
Analysis:

The data and information gathered under ML/TF threats and vulnerabilities were analyzed in light of the consequences (impacts/harms) they hold for Lebanon's: (1) economy/financial system, (2) security/reputation and (3) society at large.

In the analysis phase, a better understanding of the nature and sources of the identified ML/TF risks was achieved, and consideration was given to the probability/likelihood of risks materializing before and after applying risk mitigation measures. This was followed by benchmarking and giving a relative value (risk score), ranging from low risk to high risk.

Evaluation:

The identified ML/TF risks were evaluated, and decisions were reached on priorities with respect to additional mitigation measures needed, which were consequently laid out in an action plan.



3. ML/TF Threats

The threat from domestic low level street crimes such as murder and petty theft were deemed unimportant in the ML/TF context in spite an increase in their numbers, which is associated with the spillover effects from the neighboring conflict and with a worsening economic situation. The threat associated with air and maritime piracy was also deemed unimportant.

3.1 Money Laundering Threats

Corruption is an impediment to the economy, to the business environment, and to competitiveness. It is also a major obstacle for foreign direct investment. Government contracts and public procurements can be awarded based on favoritism to connected companies and by mutual agreement with disregard to tenders. Their size represents an opportunity for corrupt wrongdoers. Tax evasion on the other hand covers areas of income tax, property registration taxes, and taxes on international trade (customs/excise) as well as value-added tax (VAT). The structural flaws in the taxation network itself and citizens' practice of evading taxes result in losses of urgently needed funds that can be put to good use, and to benefit the public.

ML threats were identified to arise mainly from local origin criminal activity associated with corruption, tax evasion, and drug trafficking that generate significant illicit proceeds, as well as cybercrime fraud (mainly business e-mail compromise), the occurrence of which increased since the previous NRA. Other ML threats are associated with forgery, fraud and embezzlement of private funds that are relatively more reported, as well as with smuggling and counterfeited goods. Despite the lack of thorough reliable statistics on human trafficking & migrant smuggling, they remain threats based on intelligence reports and unavoidable scenarios associated with the refugees' situations. Local capital markets are underdeveloped, a limited number of publicly listed companies exist, and large-scale securities fraud don't exist. The limited number of ML cases investigated over the past few years in connection with insider trading were of foreign origin and did not involve sophisticated ML schemes and methods such as the creation of shell or front companies. The money laundering threat is low in connection with a number of other predicate crimes such as kidnapping for ransom and car thefts, and is medium-low for illicit arms trafficking.

ML threats originate from both predicate crimes committed in Lebanon (local origin predicate crimes) and abroad (foreign origin predicate crimes). ML threats are associated mainly with persons, rather than with professional money launderers, gangs or organized crime groups. Relatively speaking, ML activity is not overly large scale and several methods are used that can be characterized as not being complex or sophisticated, such as cash-based money laundering and commingling of illicit cash with funds from legitimate businesses. More complex methods can be associated with corruption and the misuse of legal persons, as well as tax evasion that includes methods such as manipulating shipping documents and presenting forged invoicing, in addition to tax fraud schemes covering illegal tax recovery (VAT refund). While due to fraud, bank accounts might receive transfers originating from the tax authority in connection with illegal tax recovery, corruption related funds do not necessarily need to be deposited in offenders' own bank accounts and can be placed in accounts of trusted third parties, associates or relatives, not to mention being used to purchase high value items or assets.

3.2 Terrorist Financing Threats

The threat of terrorism from outside as well as inside the borders was considered so as to have a better understanding of the general terrorism environment and how it drives and influences TF activities. The TF threat increased in recent years after the fall of major cities in Iraq and Syria to terrorists. Terrorist groups such as Daesh (ISIL) began focusing on Lebanon to spread ideology, form sleeper cells and recruit fighters, while taking advantage of the refugees' situation, sectarianism, and socioeconomic factors.

Combating terrorism and TF increasingly became top national priorities after Lebanon became a high-priority target for terrorist attacks and fell victim to many such attacks, including via car bombings and suicide missions. Terrorist attacks were mainly associated with the neighbouring conflict and with terrorist groups that emerged on our border and threatened our security and stability. Post 2014, the dismantling of several terrorist cells by law enforcement, and the implementation of the government's security plan resulted in some improvements in the overall situation (15 terrorist attacks in 2014). The situation drastically improved after the 2017 military offensive cleaned up the eastern border from terrorist elements, and as a result of improvements made to interagency coordination as well as to pre-emptive operations carried out by LEAs (1 terrorist attack in 2018). Terrorist groups, namely ISIL, Jabhat Al-Nusra, Al-Qaeda, Fateh El Islam, Jund Al-sham, Ahrar Al-Sham and foreign terrorist fighters (FTFs) carried out attacks in Lebanon and presented the greatest threat. Multiple smaller offshoot terrorist groups that emerged during the ISIL and Al-Nusra occupation of small parts of mountainous areas in the Bekaa valley also presented threats. Threats are also associated with FTF returnees, violent extremism, and the overall exploitable refugees' situation.

Terrorist financing and the assessed activities of terrorist groups/persons in connection with raising, collecting, storing and moving funds for internal or external use revealed that TF was mainly to carry out terrorist attacks in Lebanon. While some TF investigations/prosecutions involved cash from illegitimate sources relating to criminal activity associated with illicit arms trafficking, smuggling and ransom money, TF was primarily associated with cash from terrorist groups based in the conflict zone as well as cash from self-financing. TF activities also included the provision of material support such as food, shelter, medical supplies, and oil for heating, while a few stolen cars ended up being used in terrorist attacks. In addition, the misuse of a few NPOs for TF purposes included instances where some of the aid (goods & food) distributed by them to refugees in certain areas were later channeled without their knowledge to terrorists entrenched in mountainous areas on the Syrian-Lebanese border. A variety of methods were used to move funds, including smuggling cash across the border and inside the country to terrorists, illegal/unlicensed hawala activities, money remittances and to a lesser extent bank transactions.

The TF threat is high and is from both foreign and local origin sources. Nevertheless, TF activities are not large-scale, not complex or sophisticated and did not require a high level of knowledge or skill. They also did not require extensive resources and capabilities such as a wide network of supporters. Cash remains the favored method for terrorists to raise and move funds. Cash smuggled to finance local terrorist attacks were of modest values, and difficult to detect. Cash for TF purposes were mainly used to purchase explosives, arms and ammunition, and also to make payments to terrorist, as well as for logistical support. The TF threat from external sources originated mainly from terrorist groups such as ISIL and AL-Nusra that targeted Lebanon from their stronghold abroad. This at times was made easier by sympathizers, and extremists hiding or taking cover in refugee camps and among the large refugees' communities. The threat is low with respect to TF originating from Lebanon to support overseas terrorist activities, and is primarily associated with the actions of FTFs that left Lebanon to join ISIL and other terrorist groups in the conflict zone, some of which are expected to return (FTF returnees).

Law No. 44 ML / TF Predicate Offenses - Threat Level	
Corruption	High
Tax Evasion	High
Illicit Drug Trafficking	High
Fraud – Cybercrime	High
Smuggling & Counterfeiting of Goods	Medium - High
Forgery, Fraud & Embezzlement of Private Funds	Medium
Trafficking in Human Beings & Migrant Smuggling	Medium - Low
Insider Trading	Medium - Low
Illicit Arms Trafficking	Medium - Low
Organized Crimes - Car Thefts	Low
Environmental Crimes	Low
Kidnapping for Ransom	Low
Offence against Ethics & Public Decency (Illegal Prostitution)	Low
Extortion	Low
Sexual Exploitation	Low
Law No. 44 ML / TF Predicate Offenses - Threat Level	
Terrorism & Terrorist Financing	High

4. Inherent ML/TF Vulnerabilities

The legal, regulatory and supervisory framework for AML/CFT is robust and comprehensive, with room for improvement. Law enforcement and judicial authorities' resources are affected with Lebanon's geographic proximity to the neighboring conflict, and with the presence of large numbers of refugees with economic/social ties with jurisdictions witnessing terrorism and instability. In spite of the resource constraints, continuous efforts are exerted to close illegal border crossings and to strengthen government control over remote areas like where cannabis is grown.

The financial sector is modest in size in comparison to global or regional financial centers that attract money from across the world. However, existing inherent vulnerabilities associated with having an open economy with significant international trade, a developed banking/financial system and the wide use of cash, in addition to the presence of an informal economy (not reported for tax purposes) can be exploited by ML/TF offenders. The largest component of the financial sector is banks, their size alone exceeds 95% of the entire financial sector and they offer products and services that can be misused. DNFBPs are engaged in numerous economic activities and also offer products and services that can be misused, however, some namely art and antique dealers are insignificant. Virtual assets and activities or operations of Virtual Assets Service Providers (VASPs) are also insignificant given existing prohibitions to have such dealings. Certain types of legal persons, including NPOs can also be vulnerable to potential misuse.

5. Financial Sector and DNFBPs

5.1 Financial Sector

BANKS

The banking sector is comprised of commercial banks, investment banks (owned mainly by large local commercial banks), and a few Islamic banks. Some banks have overseas presence in the form of branch, subsidiary or representative office, and a few commercial banks are dominant in terms of overall market share. Commercial banks are of great economic significance and are well integrated with other sectors. The vulnerability of products/services offered vary between commercial banks and investment banks with the latter being much less vulnerable to TF risks. Banks deal with a large diverse customer base including high risk customers, and offer a range of vulnerable products and services provided through various delivery channels, such as cash operations, and operations for accounts of legal persons, including offshore companies where the beneficial owner and the source of funds are more difficult to identify or verify, as well as companies with public sector dealings, not to mention instances of non face-to-face dealings or dealings through third parties. Banks are the only deposit taking institutions and are thus inherently more vulnerable to ML/TF risks given also their size, transaction volumes, cross border nature of transactions, speed and frequency of operations, as well as the possibility of gatekeepers being used to execute transactions.

MONEY DEALERS

The main business of money dealers (MDs) is the purchase and sale of foreign currencies in exchange for other foreign currencies or Lebanese Pounds. The majority of money dealers are licensed as type "B", are small in size with modest transaction volumes and are not permitted to engage in operations involving transfers or hawala. A smaller number of MDs are licensed as type "A", of which a few carry out hawala operations, while a very limited few are licensed to ship banknotes. MDs geographically cover all Lebanon and their operations are associated with the prevalence of cash transactions, currency exchange, wire transfers and hawala operations. Their products and services are offered across the country to transient customers and cash generating businesses. The level of vulnerability to ML/TF risks differs between type "B" and type "A" MDs, with the latter being inherently more vulnerable to ML/TF risks, especially the sub-set offering hawala operations.

MONEY REMITTANCE COMPANIES

A number of licensed money remittance companies are currently non-operational. Three companies dominate the market in terms of volume of remittances and local geographic coverage by their sub-agents. Money remittance companies controlling the highest percentage of market share are associated with well-regulated international remittance companies based abroad, and execute remittances using their platform or network. The remittances corridors are in line with the diaspora and foreign labor work force in Lebanon. Nevertheless, identifying the source of small funds and their potential end use are challenges for money remittance companies. International typologies on the universal TF misuse of money remittance companies by FTFs, the methods of transferring proceeds of crime in small amounts from numerous originators to a single beneficiary, along with the prevalence of cash transactions and the ease in which cross border funds can be moved are inherent worldwide characteristics of the sector that contribute to making it more vulnerable to ML/TF risks.

OTHER FINANCIAL SECTOR ENTITIES

Financial Institutions, Financial Intermediaries (Brokerage Firms) and Specialized Lending Entities (Comptoirs) represent a small segment of the financial sector and are less vulnerable to ML/TF risks. They are not deposit taking institutions and are very modest in size/volumes of transactions executed. As for products and services offered by them, many brokerage firms are just providing advisory/consulting services, while financial institutions and comptoirs are mainly focused on offering small loan products. Insurance companies are also less vulnerable to ML/TF risks, especially given the modest value of insurance premiums paid against life policies with investment features that allow the option to transfer, move and store money. As for leasing companies, none existed during the last several years.

5.2 Designated Non-Financial Businesses & Professions

JEWELERS

Jewelers (Dealers in Precious Metals and Stones) operate all over the country, and most are small businesses with modest operations. A small number of jewelers are considered large businesses and command the largest market share in terms of value of transactions. Jewelers offer products vulnerable to misuse that are accessible to a wide range of customers and carry out considerable transactions in cash. Their operating nature allows for cash transactions against high-value commodities such as gold or diamonds to be carried out by transit customers with a degree of privacy. Jewelers' products also store value and can be transported and exchanged for similar amounts thus contributing to their vulnerability.

REAL ESTATE DEALERS & AGENTS

The value of built and unbuilt property transactions has been on the decline, and the real estate sector has been in recession for several years, with annual drops in prices and limited demand on supplied property. The relative resilience in prices can be attributed to Banque du Liban (BDL) subsidized lending and incentives schemes. Players involved in real estate transactions are of various sizes and include the developer or seller, the investor or buyer and brokers, as well as the bank providing the loan to either sides of the transaction. Real estate transactions carried out mainly involve banks that are subject to robust AML/CFT requirements and supervision. Other parties involved in real estate transactions are notaries and possibly lawyers in a limited number of transactions.

The real estate sector typically involves large-value transactions and assets that store value, nevertheless restrictions in Lebanon on foreigners to own real estate along with the prevalence of subsidized loans that are subject to tough vetting requirements are dominant risk mitigation features of the real estate sector. Illicit funds might be invested in real estate to conceal its origin or the beneficial owner. As such, the sector can be used as a conduit for ML, but rarely for TF. Real estate dealers & agents are involved in a modest share of the overall real estate transactions.

CASINO DU LIBAN

Casino du Liban (CDL) is a Lebanese shareholding company that has the exclusive privilege and right to administer gambling games in Lebanon. The contract with the Ministry of Finance (MOF) entitles the latter to receive 50% of all slot and casino gaming wins (the amount retained by the casino from the amount spent by customers). The largest shareholder is Intra Investment Co., in which BDL and the Government are majority owners. CDL visitors and revenues have been on the decline mainly as a result of the downturn in the economic situation and drop in number of tourists. CDL does not offer clients the ability to receive or transfer funds electronically and does not issue third party checks. When cash exceeding a certain amount is exchanged for chips, CDL returns first the same amount in cash before paying out any winnings. The ownership structure and restrictions on the mode of operations, in addition to not offering online gambling services contribute to CDL being the least vulnerable among DNFBPs.

CERTIFIED PUBLIC ACCOUNTANTS

The Lebanese Association of Certified Public Accountants (LACPA) is a self-regulatory body encompassing a sizeable number of practitioners operating across the country. By virtue of law, Certified Public Accountants (CPAs) are not allowed to establish companies for their clients and are prohibited from combining their profession with commercial professions. Their work is mostly of domestic nature and does not involve anonymity, including when transacting on behalf of customers. Public Accountants have specialized expertise in financial and tax matters that can be exploited by clients of varying risk levels (high net worth individuals, cash intensive businesses, etc.). They can also encounter in their day-to-day work shell companies, over or under invoicing activities, fake invoicing, as well as real estate transactions involving undervaluation which contribute to their vulnerability.

LAWYERS

A vibrant community of sophisticated professional lawyers work across the country. They have two bar associations in Beirut and Tripoli that are self-regulatory bodies. Registering in either is a prerequisite to practice this profession. The services rendered by some lawyers include preparing for or engaging in transactions on behalf of customers, such as establishing companies, buying and selling real estate or businesses; managing funds or other assets, and establishing or managing bank accounts. Lawyers mainly know their customers first hand. They are generally aware of their customers' risk profiles and of the risks associated with carrying out third party transactions, establishing, operating or managing legal persons whereby wrongdoers might use them in ML activities and misuse lawyers' expertise to conceal their identity, the source of funds and the BO. Their sought-after expertise and role as gatekeepers in accessing the financial sector is an inherent vulnerability associated with this profession.

NOTARIES

The authority overseeing notaries is the Ministry of Justice (MOJ). Notaries according to their governing law are public officers authorized within their competence to perform duties prescribed in the said law. They mainly handle the authentication of documents to be made official and receive fees due to the state's treasury. Their work includes verifying the identity of persons when issuing official documents and for establishing companies, in addition to certifying general assembly meetings, extra ordinary assembly meetings as well as board meetings that require filing with the commercial register. They also prepare power of attorneys, authenticate formal contracts for real-estate agreements and maintain related copies and documents, etc. Notaries might come across suspicion when handling contracts/transactions and when authenticating documents to be made official including for the establishment of legal persons. They also might come across sales contracts with undervalued or fictitious property pricing resulting in tax evasion which contributes to them being the most vulnerable among DNFBPs.

Some types of financial sector reporting entities and financial products/services are more vulnerable than others to ML/TF risks. Banks - the only deposit taking institutions, given the prevalence of ML/TF cases, their size, volume of transactions, geographic reach including exposure to high risk jurisdictions, wide range of products/services offered, delivery channels and their large diverse customer base that includes high risk customers are inherently the most vulnerable. Money remittance companies and type "A" money dealers are also high in terms of vulnerability to ML/TF risks (type "B" money dealers are medium). The modest size of other financial sector reporting entities (financial institutions, brokerage firms, insurance companies and comptoirs), the products/services offered by them and the regulatory restrictions in place contribute to making them less vulnerable to ML/TF risks.

Notaries in comparison to other DNFBPs are the most vulnerable to some high risk ML offences, particularly when preparing and/or carrying out real estate transactions and when establishing companies. Real estate dealers/agents, lawyers and certified public accountants are rated medium in terms of vulnerability to ML risks while jewelers are rated as medium - low. CDL was deemed the least vulnerable. In terms of vulnerability to TF risks, all DNFBPs are generally low.

Identifying types of reporting entities as being more vulnerable and at a higher risk of being misused for ML/TF does not necessarily mean insufficient compliance levels or inadequate AML/CFT regulations or supervision coverage. It simply means that they are more likely to be taken advantage of due to factors that include the vulnerable products/services offered by them. As such, they must be vigilant and apply the RBA to mitigate risks.

Sectors	Sub-Sector	Vulnerable to ML/TF Risk
Financial	Banks	High
	Money Remittance Companies	High
	Money Dealers "Type A"	High
	Money Dealers "Type B"	Medium
	Financial Institutions	Low
	Financial Intermediaries (Brokerage Firms)	Low
	Specialized Lending Entities (Comptoirs)	Low
	Insurance Companies	Low
DNFBPs	Real Estate Dealers & Agents	Medium
	Jewelers (Dealers in precious metals & stones)	Medium - Low
	Casino du Liban	Low
	Notaries	High
	Lawyers	Medium
	Certified Public Accountants	Medium

6. Legal Persons & Arrangements and Non-Profit Organizations

6.1 Legal Persons & Arrangements

The role of legal persons in the economy is widespread and sizable. They are in the thousands and are engaged in a wide range of economic activity. Many do not have employees because they are either inactive, small neighborhood shops run by owners, offshore companies not permitted to operate in Lebanon or legal persons established to own real estate.

Legal persons including foreign companies with place of business in Lebanon must be registered with the Commercial Register (CR), with the exception of cooperatives as well as NPOs that are subject to other registration requirements. The Lebanese Code of Commerce (CoC) allows for different types of legal persons, and mandatory requirements are stipulated under commercial, tax and financial legislations. Any changes in registered information, including in the identity of the owners, managers, directors and the beneficial owners have to be submitted to the commercial register. Furthermore, according to the CoC, legal persons must at all times engage a Lebanese certified accountant (a member of LACPA) and a Lebanese lawyer (a member in any of the two Bar Associations), until the company ceases to exist. With a few exceptions, all legal persons must legally have a bank account. BO information on legal persons is also available through the AML/CFT framework under which banks and other reporting entities carry out Customer Due Diligence (CDD) measures and also through the tax framework that requires providing BO information to the tax authority (in tax returns). The commercial register is accessible to the public and contains detailed information on legal persons. Files are archived for 10 years after liquidation. With respect to cooperatives, they are subject to registration and supervision by the Directorate General of Cooperatives at the Ministry of Agriculture, and are mainly concentrated in the agricultural sector.

As for legal arrangements, the concept of trust does not exist in Lebanon, foreign trusts are not recognized and Lebanon is not a party to the Hague Convention on trusts. Nevertheless, it is possible for a foreign trust to have a bank account in Lebanon, noting that in such circumstances they are subjected to AML obligations including CDD measures and BO identification carried out by the bank. Fiduciary contracts/accounts on the other hand are maintained exclusively by banks and financial institutions and are subject to AML/CFT obligations. Lebanese legislations also allow for waqfs that are associated with religious sects.

In spite the low level of foreign ownership within legal persons, certain vulnerabilities and features of legal persons might be exploited for ML. Examples can include those having complex ownership structures, such as holding companies where the ultimate BO is harder to determine, and the BO as well as illicit proceeds can be disguised, in addition to those having public sector dealings (government contracts & public procurements). The characteristics of offshore companies having international operations and businesses makes them more vulnerable to ML risks than others. Legal persons and arrangements are generally low risk for TF.

Type of Legal Persons (Companies)	% of Legal Persons *(As of end March 2019)*
Limited Liability Company	46.7%
Joint Stock Company	13.6%
Partnership limited by shares	0.01%
General Partnership	17.9%
Simple Limited Partnership	10.1%
Civil Companies	0.4%
Offshore Companies	7.1%
Holding Companies	3.3%
Foreign companies (Branch)	0.69%
Foreign companies (Representative Office)	0.2%

6.2 Non-Profit Organizations

For many decades, charities, the work of civil society and philanthropy have eased the impact of poverty on many, especially in rural areas. Limited resources and ineffective underperforming official programs have historically resulted in growth in charities and the non-profit sector, which first grew during the civil war. The recent growth over the last few years in this sector can be attributed to the neighboring crisis and to the refugees' situation that brought along enormous challenges with respect to socioeconomic factors.

The Ministry of Interior & Municipalities - Department of Politics & Electoral Affairs, Office of Politics, Parties & Associations is responsible for the "Certificate of Knowledge" needed to complete the establishment process for NPOs. Thousands of NPOs exist in Lebanon covering civil/cultural matters, human, women, children and prisoner rights, in addition to others involved in education, environmental and health care issues including cancer treatments and drug rehabilitation. NPOs involved in social development, public benefit, popularity and electoral advantages established by public figures also exist. The government's annual contribution to this sector via some ministries is significant and is mainly channeled through NPOs towards disabled persons, elderly people, orphans, and the underprivileged. The sub-set of NPOs which fall into the FATF definition is relatively smaller.

Lebanon's non-profit sector is domestically oriented. NPOs have access to a wide range of funding which comes from the rich community, international donors including foreign governments, as well as from individual contributions and religious duties, etc. This enables NPOs to reach poor communities in society and those in need. Non-profits with international funding such as those dedicated to Palestinians residing in refugee camps and to Syrian refugees also operate in Lebanon.

Pursuant to the ML & TF NRA, the Ministry of Interior and Municipalities published on its website a guidance on preventing the misuse of NPOs for terrorism financing. This guidance identifies the following types of NPOs, which by virtue of their activities and characteristics, may be at a higher risk of being misused for TF purposes:

- NPOs newly established, with limited expertise in programs or funding
- NPOs concerned with refugees and displaced persons
- NPOs using names implying religious affiliations, but are not so
- NPOs operating in border areas adjacent to a conflict zone

Some NPOs are more vulnerable to TF misuse, and there have been cases in which they were exploited for TF purposes. Donations to NPOs in cash makes identifying the source of funds at times difficult. The disbursement and usage of cash especially once partner organizations, intermediaries, or representatives are involved makes identifying the final usage of cash also difficult. Terrorists might infiltrate or take shelter among the existing large number of refugees' communities. This, along with NPOs' having operations in proximity to the neighboring conflict are challenges to NPOs. NPOs may encounter acts of abuse including diversion of foreign aid, and abuse of programs such as when aid (goods & food) are unknowingly rechanneled.

7. ML/TF Risks

It is crucial for both local authorities and the private sector to understand the ML & TF risks they face. Predicate crimes under AML/CFT Law no. 44 that were assessed took into consideration domestic and foreign origin ML/TF threats. With the exception of cybercrimes and insider trading, ML risks are mainly of local origin predicate crimes, and to a lesser extent as a result of foreign origin predicate crimes. The higher risk money laundering crimes are associated with corruption, tax evasion, and illicit drug trafficking resulting mainly from local predicate offences, as well as cybercrimes (mainly business e-mail compromise). Money laundering risks associated with other offences such as smuggling also exist, and are of various levels.

Terrorist groups such as ISIL and Al-Nusra present the biggest threat to Lebanon. The TF risk is high, it arises from both local and foreign origin sources, and cash remains the favored method for terrorists to raise and move funds, along with illegal/unlicensed hawala activity, which is the primary focus of LEAs and is being expeditiously eradicated.

Some reporting entities such as banks, category "A" money dealers primarily those offering hawala operations, and money remittance companies are inherently more vulnerable than others to the possible occurrence of high risk ML/TF crimes through them, and to the possible misuse of products and services offered. They must apply the RBA and be vigilant when executing transactions particulary when carrying out cash operations, and operations involving accounts of legal persons, especially offshore companies where the beneficial owner and the source of funds are more difficult to identify, in addition to non face-to-face dealings or dealings through third parties. Notaries are more vulnerable than other DNFBPs to the possible misuse of products or services offered, especially when preparing and/or carrying out real estate transactions and when establishing companies. DNFBPs as well as certain types of legal persons and NPOs that are vulnerable to possible misuse, must also be vigilant and adopt controls that are commensurate with risks.

SPECIAL INVESTIGATION COMMISSION
Fighting Money Laundering & Terrorism Financing
Banque du Liban

هيئة التحقيق الخاصة

Special Investigation Commission
Circular No. 25

Addressed to Banks, Institutions and Parties referred to in Articles 4 & 5 of Law No. 44 dated November 24, 2015

On the National ML & TF Risk Assessment (NRA)

Pursuant to Article 6, Paragraph 2, Sub-paragraph 4 of Law No. 44 of November 24, 2015 that empowers the Special Investigation Commission to issue regulations on the implementation of the provisions of the said Law, and to issue recommendations to all concerned parties, and,

Pursuant to Articles 4 and 5 of AML/CFT Law No. 44 of November 24, 2015, which require continuous monitoring, review of business relationships, and to take into consideration indicators that flag the possible existence of money laundering and terrorism financing, and,

Based on the outcomes of the second National ML and TF Risk Assessment of year 2019, in which a methodology (that includes quantitative and qualitative information, and covers private sector reporting entities) was used to identify threats and vulnerabilities, and carry out the analysis and assessment thereof in light of their consequences, so as to identify risk levels of ML/TF offences associated with predicate offences stipulated in Law No. 44 of November 24, 2015, and,

Based on the strategic plan for risk mitigation that was discussed during the meetings of the National Committee for coordinating AML Policies and the National Committee on suppressing terrorism financing, both established by the Council of Ministers, and,

With a view of having a common understanding of identified risks between relevant national authorities, and,

In order to strengthen the understanding of identified risks at banks, institutions and parties referred to in Articles 4 and 5 of Law No. 44 of November 24, 2015, that are most susceptible to the possible occurrence of the high risk crimes through them, and,

With a view of having the most efficient use and allocation of resources, and,

In order to assist in taking the necessary risk mitigation measures, while focusing on higher risk areas identified as a result of the NRA, and,

Pursuant to the Decision of the Special Investigation Commission, taken in its meeting of September 18, 2019,

The following is requested:

SPECIAL INVESTIGATION COMMISSION
Fighting Money Laundering & Terrorism Financing
Banque du Liban

هيئة التحقيق الخاصة

First: Banks, institutions and parties referred to in the above-mentioned Articles 4 and 5 must consider, when assessing their own risks (customers, services/products, countries) and when applying the risk based approach, that terrorism financing, and money laundering crimes associated with corruption, tax evasion, and drug trafficking, resulting mainly from local predicate offences, in addition to cybercrimes are high risk crimes, and must adopt measures and controls commensurate with these risks.

Second: Financial sector entities, particularly banks, category "A" exchange institutions, and money remittance companies, must adopt, as far as each is concerned, controls and the necessary risk mitigation measures to reduce the possible occurrence of high risk crimes identified in paragraph "First" above through them, and to reduce the possible misuse of products and services offered, particularly those related to cash operations, "Hawala" operations, and accounts of legal persons, especially offshore companies where the beneficial owner and the source of funds are difficult to identify, in addition to instances of non face-to-face dealings or dealings through third parties.

Third: Designated Non Financial Businesses and Professions (DNFBPs) must adopt controls and the necessary risk mitigation measures to reduce the possible occurrence of high risk crimes identified in paragraph "First" above through them, and to reduce the possible misuse of products and services offered, particularly notaries, when preparing and/or carrying out real estate transactions and when establishing companies.

This Circular shall be published in the Official Gazette and shall enter into force upon its issuance.

Beirut, September 18, 2019
Chairman of the Special Investigation Commission
The Governor of the Banque du Liban
Riad Toufic Salamé

8. Risk Mitigation Measures – AML/CFT Regime

Lebanon has a comprehensive AML/CFT regime in line with FATF standards that is assessed by the Middle East & North Africa Financial Action Task Force (MENAFATF) and is subject to its follow-up process. At the center of the AML/CFT regime is the SIC, the country's multi-function financial intelligence unit and other AML/CFT stakeholders from both the public and private sectors. The AML/CFT regime rests on a number of pillars: (1) legal & regulatory, (2) domestic & international cooperation, (3) financial sector reporting entities & DNFBPs, and (4) AML/CFT supervision.

LEGAL AND REGULATORY

The legislative framework is based primarily on AML/CFT law no. 44 of 2015 and other legislations, including the cross-border transportation of money law and the penal code which criminalizes TF including the financing of FTF activities in accordance with UNSCR 2178. The Tax procedure law as well as the Code of Commerce place BO requirements for legal persons, and detailed AML/CFT regulations are issued to all reporting entities by BDL and the SIC. The AML/CFT law identifies financial sector institutions and DNFBPs as reporting entities including notaries, lawyers, and accountants, as well as ML/TF predicate offences, which cover crime categories as per FATF standards. It also sets requirements including for CDD measures, beneficial ownership, record keeping and reporting suspicion. The said law establishes the FIU and its powers which include freezing powers, and also designates the authorities responsible for supervision of financial sector reporting entities and DNFBPs and for issuing regulations. The AML/CFT law also sets the legal basis for mechanisms to implement targeted financial sanctions related to terrorism/TF with respect to UNSCRs 1267 & 1373, and allows for confiscation of assets and the sharing of confiscated assets with concerned countries. While the formal mutual legal assistance (MLA) channel is managed by the MOJ and the General Prosecutor, ML/TF information disseminated or shared by the SIC can be used to support local as well as foreign investigations and prosecutions. The AML/CFT law defines the relation between the SIC and the General Prosecutor, and the latter also oversees parallel financial ML/TF investigations and ensures that ML/TF crimes are prosecuted.

DOMESTIC AND INTERNATIONAL COOPERATION

The domestic cooperation in place between the SIC and concerned national agencies is essential to maintain an effective AML/CFT regime and to protect the integrity of the financial and non-financial sectors. Cooperation takes many forms, including prioritizing ML/TF requests of assistance, operational capacity building through joint training programs, and inter-agency work on emerging trends such as on cybercrimes and on TF. Other forms of domestic cooperation take place via the two national committees on AML and CFT that encompass several national agencies.

The SIC, the General Prosecutor, the ISF and a number of other LEAs including customs which enforces law no. 42 on the cross-border transportation of money are regime partners. Their cooperation on matters of intelligence gathering and ML/TF investigations is effective and was pivotal in disrupting numerous money laundering and terrorist financing activities. The Ministry of Interior & Municipalities has oversight with respect to NPOs and ensures that they are not being misused to finance terrorism. Domestic cooperation among various agencies covered this area and reached desirable outcomes. On tax evasion, the Ministry of Finance and the SIC complement each other's work on matters such as OECD-Global Forum requirements. Other forms of cooperation exist, such as Customs and SIC work on the mechanism to implement law No. 42, and the SIC having direct access to cross border declaration / disclosure reports and seizures.

The high-level commitment to improve cooperation to combat TF led several intelligence agencies to establish within their respective agencies branches that focus on TF investigations. This commitment also resulted in aligning the TF offence, preventative measures, and TFS with international standards. As such, domestic cooperation on terrorist designations and freezing of terrorist assets is robust. The National Committee on Suppressing Terrorism Financing has put in place TFS mechanisms for the implementation of UNSCR 1267 & UNSCR 1373. Regulations on the "freezing without delay" with respect to UNSCR 1267 were issued by BDL and the SIC. The first designations in accordance with UNSCR 1373 were made in December 2015, and as of end-March 2019, fifty-five listings are on the terrorism/TF national list. Existing domestic cooperation on CFT matters, along with the capacity levels of authorities, supervisors and reporting entities including awareness of how products/services may be exploited for TF are current effective mitigating measures.

International cooperation is vital for ML/TF investigations given the interconnection of world economies and financial systems, as well as the broader use of new technologies that allow for the instant movement of funds around the world. Effective domestic cooperation affects international cooperation to a great extent. One area of direct impact is the quality, usefulness and timeliness of information exchanged between FIUs. Lebanon's SIC is a member of the Egmont Group of FIUs since 2003, with its Secretary General having served as the Egmont Committee vice chair and twice as the Middle East and North Africa (MENA) region representative. The SIC actively participates in EG work such as on the ISIL project and others. Reach out efforts over the years in the form of technical assistance and other engagements were carried out by the SIC on its own or in partnership with others, and have resulted in bringing several FIUs from our region to Egmont Group membership.

Lebanon is a founding member of MENAFATF and an active participant in its work. Since its founding back in 2004, Lebanon has assumed twice the presidency of this body. As of end 2018, several SIC staff participated as assessors in eleven mutual evaluation missions for MENA countries, and more are already scheduled. The SIC has also worked with MENAFATF on a number of initiatives to improve the AML/CFT capacity of countries, including by providing training and sharing expertise on the ML & TF NRA process. More recent initiatives brought together in Beirut anti-corruption agencies and FIUs from the MENA region under the banner of the first Arab forum of anti-corruption agencies and FIUs. The aim was to improve the fight against corruption and promote cooperation between such agencies. Lebanon through the SIC continues to participate in meetings of MENAFATF, Egmont Group and the FATF, and remains actively involved in related working groups and projects. Lebanon is also an active partner in the fight against ISIL and participates in the work of the Counter ISIL Financing Group (CIFG) within the Global Coalition against Daesh.

An effective AML/CFT regime when it comes to international cooperation is best measured by the ability to confiscate and repatriate illicit proceeds related to foreign predicate crimes. In a number of cases Lebanon has repatriated funds, and Lebanon's SIC was recognized for investigating, freezing, and successfully repatriating corruption related funds by the World Bank-UNODC Stolen Asset Recovery Initiative (StAR Award of Excellence). Furthermore, effective international cooperation is measured by information exchanged via the FIU to FIU channel, other forms of cooperation, and via the more formal MLA channel, all of which are marked with high response rates containing quality information.

FINANCIAL SECTOR REPORTING ENTITIES & DNFBPs

The financial sector is regulated by BDL, except for insurance companies which are regulated by the Ministry of Economy & Trade, and for financial brokerage firms which are regulated by the Capital Markets Authority (CMA) that also limits the licensing of mutual funds – collective investment schemes to just banks or certain types of financial sector reporting entities. All three authorities have adopted tough licensing requirements and have implemented strong oversight measures. The SIC, aside from being the country's FIU, is also the main AML/CFT supervisory authority for all financial sector reporting entities and a number of DNFBPs, while others, namely notaries, lawyers and accountants are regulated and supervised by the MOJ and by their respective syndicates.

Banks & other reporting entities are at the forefront in the fight against ML and TF. Internal controls and systems they adopt to monitor, detect and report suspicious transactions are at the core of the AML/CFT regime. The effective implementation of CDD measures, record keeping requirements, BO identification and the RBA by financial sector reporting entities & DNFBPs, in addition to other regulatory requirements serve as a barrier in preventing offenders from misusing these entities, placing illicit proceeds into the financial system and from exploiting it to finance terrorism. As per FATF standards, all categories of reporting entities are covered under AML/CFT law no. 44, including notaries, lawyers and accountants. As such, there are hundreds of reporting entities in Lebanon. Banks, given their size and wide range of products/services in comparison to other financial sector reporting entities, are considered the main component of the financial sector and the backbone of the economy. They enjoy robust AML/CFT controls including for sanctions screening & evasion.

AML/CFT SUPERVISION

Aside from being the country's FIU, the SIC is also the main AML/CFT supervisory authority. The SIC Compliance Unit supervises banks and other financial sector reporting entities as well as a number of DNFBPs to ensure compliance with prevailing AML/CFT regulations. In this regard, it carries out onsite examinations to assess the effectiveness of AML/CFT compliance programs, CDD measures and controls adopted to monitor, detect and report suspicious transactions. The placement of the AML/CFT supervisory function within the FIU competence, and the SIC compliance Unit role in heading the SIC work within the NRA process contribute greatly to the effectiveness of the supervision it carries out.

Onsite examinations are risk based and are complemented with annual offsite work that use criteria such as compliance history, size, products/services provided, customers' risk classifications, geographic presence, external auditors' findings and reports filed with the SIC. All are utilized to determine the frequency/program of onsite examinations. The risk based AML/CFT compliance examinations carried out at banks, financial institutions, money dealers, money remittance companies, insurance companies, financial brokerage firms and specialized lending entities (comptoirs), as well as at a number of DNFBPs are robust and are also complemented by work done by the respective prudential supervisory authorities. External auditors also carry out their own independent AML/CFT annual examinations for banks, financial institutions, type "A" money dealers and money remittance companies. Lawyers and accountants are supervised for AML/CFT by their respective syndicates, and notaries by the MOJ.

Findings from AML/CFT onsite examinations highlight for banks and other reporting entities corrective measures to implement in order to enhance their AML/CFT compliance programs and internal controls. Remedial action plans are then prepared accordingly. The RBA for supervision of concerned sectors under AML/CFT Law no. 44 is updated by the SIC Compliance Unit when necessary to ensure both adequate coverage and more focused assessments. Furthermore, updates or new AML/CFT regulations that target reporting entities are suggested and introduced when the need arises due to either evolving risks, findings from AML/CFT compliance examinations, best practices, or according to developments in international standards. In instances where AML/CFT compliance examinations reveal non or partial compliance at financial sector reporting entities, the SIC is empowered to issue a warning, and recommend administrative penalties or monetary fines which are ultimately decided on by the higher banking commission. The SIC is also empowered in instances of non or partial compliance to correspond with the supervisory or oversight authorities for other types of reporting entities that are also subject to sanctions via other laws and regulations. Further to the above, any reporting entity, within the financial sector or other that violates certain AML/CFT provisions including failing to report ML/TF suspicion, not submitting to the SIC requested information or tipping of customers are subject to imprisonment and a monetary fine as stipulated in AML/CFT law no 44.

9. Looking Forward

Lebanon has come a long way in the fight against money laundering & terrorist financing, and our AML/CFT regime is in line with international standards. In spite of this, ML and TF offenders will try to exploit any vulnerabilities or weaknesses, thus causing harm to our national security, reputation, economy, and to society at large.

Concerned local government agencies have already benefited from the NRA outcome. By publishing its findings, and constantly updating the SIC website with ML/TF typologies, we also hope to raise public awareness, and enable the private sector to better understand the inherent ML/TF risks they face. As a result, they will become more informed, in a better position to assess the AML/CFT controls they adopt, and take the necessary risk mitigating measures.

ML & TF risks are constantly evolving, and worldwide advancements in financial technology (Fintech) are happening at a rapid pace. Their inevitable broader use is a matter of time. We are committed to updating our ML/TF national risk assessment on an ongoing basis, when needed or within a period not exceeding 3 to 4 years, which in turn enables us to take risk mitigation measures in due time and enhance the effectiveness of our AML/CFT regime.