



### I. Performance in Global Best Practice Indices

Lebanon ranks in the second or third quintile for the global indices which benchmark its political, economic, business, and human capital climates, as shown below. Lebanon's rank in the third quintile of the UNDP's Human Development Indicators places it in the category of "medium human development," which is roughly on par with the other countries in the region. The World Bank's latest Doing Business Indicators reports that the ease of doing business has deteriorated. In particular, the World Bank finds that the challenges of launching a business have increased. Perceived corruption as measured by Transparency International's Corruption Perceptions Index has also increased over the past year.

Name	Year	Rank	Score	Quintile
Freedom House Index	2009	Partly Free	4.5/7	N/A
Bertelsmann Transformation Status Index	2008	49/125	6.16/10	2
Heritage Foundation Economic Freedom Index	2009	95/162	58.1%	3
Economic Freedom of the World Index	N/A	N/A/141	N/A/10	N/A
World Economic Forum Global Competitiveness Index	N/A	N/A/134	N/A/7	N/A
Milken Institute Capital Access Index	2008	48/122	5.12/10	2
World Bank Ease of Doing Business Index	2008	99/181	N/A	3
UNDP Human Development Index	2008	78/177	0.796/1	3
Transparency International Corruptions Perception Index	2008	102/180	3.0/10	3

### II. Credit Ratings

Moody's	B2/Stable
Fitch	B-/Stable
Standard & Poor's	CCC+/Stable

### III. Performance in eStandardsForum's Indices

#### 1. Business Indicator Index

**Score: 5.57 out of 12 Rank: 67**

With an overall score of 5.57/12 Lebanon is below standard on the economic, legal, and political indicators that make up our Business Index. Lebanon has a market-based statist economy, in which total government expenditure, including consumption and transfer payments, is high. Government spending equaled 34.6 percent of GDP. Lebanon is open to foreign investment and provides national treatment to foreign investors. However, there are restrictions against foreign investment in several sectors, as well as unofficial barriers such as outdated legislation and a weak judicial system. On the other hand, Lebanon offers a variety of incentive packages, including tax incentives. Secured interests in property are enforced, but intellectual property rights enforcement in weak. Political instability may be another deterrent from investment. Corruption is extensive, as reflected in Lebanon's ranking of 102nd out of 180 countries in Transparency International's 2008 Corruption Perceptions Index.

#### 2. Standards Compliance Index

**Score: 15.83 out of 100 Rank: 70**

Lebanon achieves very low overall compliance with international standards and codes, with a score of 15.83 out of 100 in our Standards Compliance Index. Lebanon is poor in macroeconomic fundamentals with two standards at the "no compliance" level and one, monetary transparency, lacking independent assessments of its level of compliance. Lebanon does not fare any better in the market infrastructure and financial supervision categories. However, there are reports of ongoing reforms. In 2006, the Lebanese Transparency Association adopted a Lebanese Code of Corporate Governance, and implemented the European Union (EU) Association Agreement, which requires Lebanese companies to adopt corporate governance principles in line with EU legislation. The Central Bank of Lebanon has also approved the final road map for creating a real time gross settlement system compliant with international standards. Also a draft insurance law promises to bring Lebanon in conformity to the Insurance Core Principles. Finally, the U.S. Department of Commerce, in its 2009 Country Commercial Guide, indicates that Lebanon's banking sector is sound with high capital adequacy ratios, and a transparent regulatory framework in line with the Bank for International Settlements standards.

### 3. Detailed Summary of Observance of Standards & Codes:

Macroeconomic Policy and Data Transparency						
	Full Compliance	Compliance in Progress	Enacted	Intent Declared	No Compliance	Insufficient Information
Data					X	
Monetary						X
Fiscal					X	

Institutional and Market Infrastructure						
	Full Compliance	Compliance in Progress	Enacted	Intent Declared	No Compliance	Insufficient Information
Accounting					X	
Auditing					X	
Corp. Governance				X		
Insolvency						X
Payment System						X
Money Laundering				X		

Financial Regulation and Supervision						
	Full Compliance	Compliance in Progress	Enacted	Intent Declared	No Compliance	Insufficient Information
Banking				X		
Securities				X		
Insurance				X		

## Macroeconomic Policy and Data Transparency

### Special Data Dissemination Standard

#### NO COMPLIANCE

Lebanon does not subscribe to the International Monetary Fund's (IMF) Special Data Dissemination Standard. It does, however, subscribe to the less rigorous General Data Dissemination System (GDDS), and has done so since January 2003, according to the GDDS website. A number of IMF sources have noted the existence of significant statistical weaknesses in a variety of areas, including national accounts and balance-of-payment data, price indices, labor statistics, demographics, and others. On the other hand, the IMF has found monetary and financial markets data, as well as central government budgetary accounts to be adequately covered. The deficiencies, taken together, are judged to have made effective economic monitoring more difficult. As of the 2009 IMF Article IV Consultations report, most of the previously noted deficiencies remain, and a comprehensive overhaul of the statistical regime is needed. Specific factors contributing to Lebanon's data dissemination difficulties include inadequate staffing at the Central Bank of Lebanon and

the Central Administration for Statistics, as well as poor inter-agency cooperation. To improve its situation, Lebanon will require technical assistance.

### **Code of Good Practices on Transparency in Monetary Policy**

#### **INSUFFICIENT INFORMATION**

The Law for the Code of Money and Credit provides the Central Bank of Lebanon (CBL) with financial and administrative autonomy, but the IMF's 2005 Report on the Observance of Standards and Codes (ROSC) for Fiscal Transparency asserted that there have been times in the past when the CBL's independence has been compromised. Contributing to the problem is the CBL's own regulatory framework, in which the Minister of Finance nominates candidates for the posts of governor and ministerial representatives to serve on the CBL board of directors. The ROSC noted that such representatives are prohibited by law from interfering with the management of the CBL. Nonetheless, the situation contributes to a lack of clarity as to the respective roles and responsibilities in monetary and fiscal policy. In its 2007 Public Information Notice regarding the conclusion of that year's Article IV Consultations, the IMF suggested that clarity of roles and responsibilities could be enhanced if the CBL refrained from quasi-fiscal activities, established a joint working group in the Ministry of Finance, and the CBL better coordinated interventions in the financial market. The IMF also suggested that the CBL reduce its direct financing of the government. In its 2009 Article IV report, the IMF singled out two recent CBL achievements, both of which occurred in January of 2009. First, the CBL established an investment committee and drafted formal guidelines for foreign reserve management. Second, it adopted formal policies that govern the selection, appointment, and rotation of the CBL's external auditors. However, no comprehensive information is publicly available to enable an accurate assessment of Lebanon's overall level of compliance with the IMF's Monetary Policy Transparency Code.

### **Code of Good Practices on Transparency in Fiscal Policy**

#### **NO COMPLIANCE**

The IMF, in the fiscal module of its 2005 Report on the Observance of Standards and Codes (ROSC), notes that Lebanon needs to implement institutional and legislative reforms to improve transparency and accountability within the budgetary process. Both in terms of budget preparation and information integrity, the ROSC cites the need for improvements in order to meet the requirements of the IMF's Code of Good Practices on Transparency in Fiscal Policy. Some progress was acknowledged in the ROSC, however. Lebanon adopted a new budget classification standard in 1997 that comports with the methodology employed in the 1986 Government Finance Statistics Manual. It has brought computerization into the fiscal process, and the Ministry of Finance has begun to provide more regular and timely publications on fiscal policy and outcomes. The ROSC also applauded the ongoing progress toward establishing a unitary Treasury account. Nonetheless, the ROSC noted a number of specific shortcomings in Lebanese fiscal policy transparency, including the lack of an external audit, the failure to include audited statements of prior-year budget performance in the current year's budget document, and the continuing reliance on extra-budgetary and quasi-fiscal activities within the budget. The 2009 IMF Article IV Consultation report documents further tax law reforms, but it observes that there is a need for an overhaul of the statistics system. According to the Open Budget Index for 2008, Lebanon's budget documentation provides only minimal information to the public.

## **Institutional and market infrastructure**

### **Effective Insolvency and Creditor Rights Systems**

## INSUFFICIENT INFORMATION

Lebanon lacks any modern legislation specifically covering bankruptcy and insolvency. According to a 2007 report by the U.S. Department of Commerce, Lebanese court procedures are archaic, the courts may be interfered with, and there are too few judges. Insolvency related issues are dealt with under the Commercial Code and the Penal Code, according to a 2005 report by the Institut de la Mediterranee (Institute of the Mediterranean) of France and the Economic Research Forum of Egypt. The government of Lebanon considers it a priority to reform insolvency procedures, and in 2006, the Ministry of Finance reported that, with the support of the European Union, a new draft law which is "in line with the latest international guidelines" was awaiting final review and approval. However, no further information as to Lebanon's compliance with the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems developed by the World Bank is publicly available.

### International Financial Reporting Standards

#### NO COMPLIANCE

A 2003 World Bank review of the accounting and auditing environment in Lebanon noted that the ministerial order of 1996 required the adoption of International Financial Reporting Standards (IFRSs) "with exceptions" for most companies. Listed companies are required to follow IFRSs, however, banks must follow rules set by the Banking Control Commission, which differ from IFRSs, the World Bank noted. With regard to small companies, the World Bank report pointed out that these entities are exempt from IFRSs requirements. Overall, the World Bank reported that despite the adoption of international standards, significant compliance gaps exist in both accounting and auditing practices, although fewer gaps were observed with banks and listed companies. Camille C. Sifri, in a 2004 presentation, reiterated the fact that mandatory implementation as well as effective enforcement of IFRSs was limited to publicly listed companies and banks. World Bank recommendations included, but were not limited to, adopting new laws regulating accounting and auditing, requiring the application of IFRSs by all public interest entities, reforming the role of the Higher Council on Accounting as the professional oversight body, and upgrading the licensing procedure for accountants in public practice.

### Principles of Corporate Governance

#### INTENT DECLARED

According to a 2005 report on corporate governance in Lebanon by the Institute of International Finance (IIF), although the Lebanese government has given high priority to improving its legal and institutional framework for corporate governance, important gaps remain, and the judicial system still lacks independence. Furthermore, minority shareholders' rights are not adequately protected and the responsibilities of the Board are not well defined. Therefore, the IIF Equity Advisory Group recommended applying the guidelines of the 2002 IIF Corporate Governance Code and preparing a corporate governance code on a mandatory or "comply-or-explain" basis. It further advised establishing an independent securities supervisory authority to ensure effective enforcement. In 2002 the Lebanese Corporate Governance Task Force was put in place by the Lebanese Transparency Association (LTA) to design and implement projects on corporate governance in Lebanon. In 2006, the LTA adopted a Lebanese Code of Corporate Governance, and implemented the European Union (EU) Association Agreement, which requires Lebanese companies to adopt corporate governance principles in line with EU legislation. A 2006 Ministry of Finance report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. The 2009 U.S. Department of Commerce report adds that the law is now awaiting parliamentary approval. On October 11, 2007, the International Finance Corporation (IFC) signed a Memorandum of Understanding with the LTA to establish an institute that will promote better corporate governance practices in Lebanon.

## International Standards on Auditing

### NO COMPLIANCE

According to a 2003 World Bank review of accounting and auditing practices in Lebanon, financial statements of listed companies and banks must be audited in accordance with International Standards on Auditing (ISAs) per the Beirut Stock Exchange and Banking Control Commission rules, respectively. However, the assessment noted that Lebanese legislation does not specify auditing standards with regard to other entities. Nonetheless, many audit firms make an effort to perform audits in line with ISAs. At the time of the assessment, the Minister of Finance was in the process of drafting a Ministerial Order to require the use of ISAs by all auditors. However, the 2007 Lebanese Association of Certified Public Accountants self-assessment stated that the issuance of such an order was still a work-in-progress. The World Bank noted that, in general, Lebanon had made "commendable progress" in implementing international standards. However, other than in banks and listed companies, significant compliance gaps existed both in accounting and auditing practices. Among other issues, the World Bank recommended reviewing existing legislation or legislating new laws for accounting and auditing, requiring the application of ISAs by all public interest entities, reforming the role of the Higher Council on Accounting as the professional oversight body, and upgrading the licensing procedure for auditors in public practice.

## Anti-Money Laundering/Combating Terrorist Financing Standard

### INTENT DECLARED

Lebanon is a founding member of the Middle East and North Africa Financial Action Task Force (MENAFATF) which is an associate member of the Financial Action Task Force (FATF). Members of the MENAFATF signed a Memorandum of Understanding in 2004, whereby they pledged to adopt and implement the FATF's recommendations. Moreover, in its 2006 annual report, the MENAFATF states that all accession countries must adopt the FATF Forty Recommendations and Nine Special Recommendations. The FATF's 2007-2008 Annual Report also names Lebanon as one of the jurisdictions that has undertaken to implement the FATF's 40+9 recommendations. As noted in a 2009 U.S. Department of State (DoS) International Narcotics Control Strategy Report, Lebanon is scheduled for a MENAFATF Mutual Evaluation on its compliance with international standards. The report adds that Lebanon has been taking measures to strengthen its anti-money laundering and terrorist financing regime since the early 2000s. For instance, with regard to the legal framework, on April 20, 2001, the Lebanese Parliament passed Law No. 318 on Fighting Money Laundering, which criminalizes money laundering, defines fines and sanctions, and creates a framework for lifting banking secrecy. Lebanon also adopted Law No. 547, criminalizing funds related to the financing of terrorism, acts of public/private funds theft, and counterfeiting, as well as Law No. 553, providing an extension to the Penal Code on terrorist financing. Additionally, Law No. 318 also established Lebanon's Financial Intelligence Unit (FIU), the Special Investigation Commission (SIC) as an independent legal entity with judicial powers. Overall, the 2009 U.S. DoS report finds Lebanon significantly vulnerable to money laundering and terrorist financing activities. Most significantly, the DoS recommends that Lebanon become a party to the UN International Convention for the Suppression of Terrorist Financing and to the UN Convention against Corruption.

## Core Principles for Systemically Important Payment Systems

### INSUFFICIENT INFORMATION

The 2006 and 2009 Article IV Consultation reports by the IMF both mention that the IMF has been providing technical assistance to Lebanon since 2004 in the area of payment systems. The IMF has assessed the payment systems in Lebanon as to their compliance with the Core Principles for Systemically Important Payments Systems (CPSIPS)

promulgated by the Committee on Payment and Settlement Systems (CPSS). However, there no information publicly available regarding the results of this assessment, or as to which is the systemically important payment system in Lebanon. The 2009 IMF report also states that "progress in implementing IMF recommendations has been limited." A real time gross settlement (RTGS) system is not available in Lebanon, and large-value funds transfers are mainly processed by check clearinghouse and other systems, notes a 2008 World Bank report on payment systems worldwide. According to the Central Bank of Lebanon (BDL) website, the central bank owns and operates the payment and settlement system in Lebanon, and it is also responsible for the safety and soundness of the system. Further, Law No. 133/99 of 1999 expands the role and responsibilities of the BDL, granting it greater powers for developing and regulating payment systems. A 2003 report by the CPSS mentions the BDL's 2002 approval of a plan to launch the Secure Electronic Banking and Information for Lebanon (SeBIL), which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. The BDL website states that the central bank has taken a number of steps to develop a secure and reliable RTGS system, such as employing a specialized international company to prepare a feasibility study on the implementation of a RTGS system aligned with the CPSIPS.

## Financial Regulation and Supervision

### Core Principles for Effective Banking Supervision

#### INTENT DECLARED

In 1999, the IMF conducted a Financial Sector Assessment Program (FSAP) for Lebanon, wherein it assessed banking supervision in the country. An update was also conducted in 2001, although these reports were not published by the IMF. Nevertheless, a 2008 report published by the Commission of the European Communities mentions that Lebanon is implementing the recommendations of the IMF FSAP. A 2006 review of the regulatory framework governing the banking sector in Lebanon commissioned by the Association of Banks in Lebanon and the International Finance Corporation concludes that it is "suitable," with "acceptable" minimum requirements for banks and "sound" supervisory division of responsibility and interaction. The U.S. Department of Commerce (DoC), in its 2009 Country Commercial Guide, further indicates that Lebanon's banking sector is sound with high capital adequacy ratios, and a transparent regulatory framework in line with the Bank for International Settlements standards. Furthermore, a 2007 report by the U.S. Department of State (DoS) notes that the country is 'compliant' with 24 of the 25 Basel Core Principles (BCPs). However, this statement from the DoS has yet to be substantiated with a comprehensive assessment of the country's compliance with the BCPs. The DoC report refers to an unpublished self-assessment by the Banking Control Commission of Lebanon (BCCL) against the BCPs as well as an action plan to achieve full compliance with the principles during 2009. The report, as well as information provided on the BCCL website, also reveal the country's compliance with Pillars I and II of Basel II, and its plans to implement Pillar III by 2009.

### Objectives and Principles of Securities Regulation

#### INTENT DECLARED

The Institute of International Finance's 2005 report on corporate governance in Lebanon observes that the enforcement of capital market regulations is inhibited by an underdeveloped institutional framework, and especially the lack of an independent securities authority. The Ministry of Finance (MoF), the Central Bank of Lebanon, and the Banking Control Commission of Lebanon share the responsibility of regulating and supervising the securities market. In 2004, the MoF enlisted the assistance of the Financial Sector Reform and Strengthening (FIRST) Initiative to promote capital markets development in the country and to re-establish Beirut as a regional financial center. Per the FIRST Initiative

recommendations, the government launched efforts to issue new stock exchange regulations as well as new laws to improve securities regulation. One significant effort has been to bring the Capital Market Draft Law, which has been pending for years, up for parliamentary approval, according to a 2009 report by the U.S. Department of Commerce. A 2008 MoF report indicates that the Capital Market Draft Law is a framework law to which provisions will be added as the capital market matures. The Law is expected to establish the Capital Markets Council, an independent regulatory authority with statutory powers to develop and regulate the capital markets. It was awaiting parliamentary approval as of late 2008. However, there is no update on the actual passage of the law.

## Insurance Core Principles

### INTENT DECLARED

In their joint (and unpublished) 1999 Financial Sector Assessment Program (FSAP), the World Bank and the International Monetary Fund concluded that the insurance sector in Lebanon was characterized by inadequate regulation and supervision (as mentioned in a 2006 Financial Sector Reform and Strengthening (FIRST) Initiative report). A 2005 Institut de la Mediterranee & Economic Research Forum (IM & ERF) report also observed that the insurance industry in Lebanon demonstrates inadequate transparency and disclosure, as well as financial and risk reporting. In 2003, the FIRST Initiative, as noted in its 2006 report, launched a "Review and Drafting of a New Insurance Law" project for Lebanon, which was completed in April 2006. The aim of the project was to strengthen the insurance sector in Lebanon through improved regulation and supervision and to assist Lebanon in drafting a new Insurance Law and related regulations incorporating the 2003 Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS). As a result of the project's implementation, a new Insurance Law was drafted. Regulations related to the law were also prepared but only to a limited extent due to considerable re-drafting issues. The new draft law was expected to address weaknesses identified in the 2006 FIRST Initiative report. Per the IM & ERF report, the new draft law is "inspired in large part" by the IAIS's ICPs. According to a 2008 Ministry of Finance publication on reforms, the draft legislation also provides for an independent Insurance Regulatory Commission with the necessary powers to undertake supervision of the insurance sector. The draft law was expected to be finalized by the end of May 2006, as stated in the 2006 FIRST Initiative report. However, as of May 2009, there is no publicly available information regarding the implementation of the Law.

## IV. Macroeconomic Data

2008 GDP (Current Prices): 28.939 billion USD (IMF)

2008 GDP (Per Capita): 7617 USD (IMF)

2009 GDP (Growth Forecast): 3.0% (IMF)

2009 Inflation (CPI): 3.6% (IMF)

2008 Unemployment: 9.2% (CIA)

2007 Foreign Direct Investment

FDI (Inward): 2.845 billion USD (UNCTAD)

FDI (Outward): 0.233 billion USD (UNCTAD)

2007 Official Development Assistance

ODA (Received): 939 million USD (OECD)  
ODA (Disbursed): N/A million USD (OECD)

## Methodology Note

eStandardsForum's Best Practice Assessment (BPA) provides a comprehensive overview of a country's position with respect to leading global indicators addressing its political, economic, business, and social climate. It also provides a summary of developments in a country's compliance with international standards and codes, as well as that country's economic and legal framework. Accordingly, a BPA consists of the following sections:

### I. Performance in Global Indices

In this section, the rank and score of a country in nine distinct global indices is summarized. The country's relative position in these indices is made more comparable by calculating the quintile corresponding to the country's rank. In addition, a short summary interpreting the country's performance in the nine indices is provided. The following nine indices are used:

The *Freedom in the World Survey* is published annually by Freedom House and contains reports on 193 countries and 14 related and disputed territories. The political rights and civil liberties categories contain numerical ratings between 1 and 7 for each country or territory, with 1 representing the most free and 7 the least free. The status designation of "Free", "Partly Free", or "Not Free", which is determined by the combination of the political rights and civil liberties ratings, indicates the general state of freedom in a country or territory.

<http://www.freedomhouse.org>

The *Bertelsmann Transformation Status Index* shows the development achieved by 119 states on their way toward democracy and a market economy. States with functioning democratic and market-based structures receive the highest scores. The Status Index's overall result represents the mean value of the scores for the dimensions Political Transformation and Economic Transformation. The rating is based on a system of points ranging from 1 (worst score) to 10 (best score).

<http://www.bertelsmann-transformation-index.de/16.0.html?&L=1>

The *Heritage Foundation Economic Freedom Index* measures 162 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom. For each factor, a country receives a 0 to 100 percentage score, indicating the degree of economic freedom in the country.

<http://www.heritage.org/research/features/index/index.cfm>

The *Economic Freedom of the World Index*, published by the Fraser Institute, covers five broad areas: size of government; legal structure and security of property rights; access to sound money; freedom to trade internationally; regulation of credit, labor, and business. Each component and sub-component is placed on a scale from 0 to 10 that reflects the distribution of the underlying data. A higher value signifies greater economic freedom.

<http://www.freetheworld.com/index.html>

The *World Economic Forum Global Competitiveness Index* provides an overview of factors that are critical to driving productivity and competitiveness. These factors are grouped into nine distinct but interconnected pillars: (1) Institutions, (2) Infrastructure, (3) Macro economy, (4) Health and primary education, (5) Higher education and training, (6) Market efficiency, (7) Technological readiness, (8) Business sophistication, and (9) Innovation. The Index is calculated from a mixture of survey and hard data, and the data for each pillar is converted into a scale from 1 to 7. A higher value indicates greater competitiveness.

<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>

The *Milken Institute Capital Access Index* scores the ability of entrepreneurs to gain access to financial capital in 122 countries around the world. The Index is intended to measure not only the breadth, depth, and vitality of capital markets, but also openness in providing access without discrimination, a measure of global progress in the democratization of capital. The Index has 7 subcomponents with a score assigned from 1 to 10 for countries ranking lowest to highest in terms of capital access. The Capital Access Index is then calculated using the weighted average of the seven subcategories.

<http://www.milkeninstitute.org/research/research.taf?cat=indexes>

The *World Bank's Ease of Doing Business Index* provides measures of business regulations and their enforcement. The Doing Business indicators are designed to indicate the regulatory costs of business and can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth. The Index then ranks economies from 1 to 175. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered.

<http://www.doingbusiness.org/>

The *Human Development Index (HDI)* is a comparative measure of life expectancy, literacy, education, and standard of living for 177 UN member states. The index has been used since 1993 by the United Nations Development Program in its annual Human Development Report. The HDI measures the average achievements in a country in three basic dimensions (life expectancy, literacy and standard of living) of human development. These measures are then converted into a 0 to 1 scale and each of the 177 UN member states are ranked accordingly each year.

<http://hdr.undp.org/>

The *Transparency International Corruption Perception Index (CPI)* ranks 163 countries in terms of the degree to which corruption is perceived to exist. The CPI Score relates to these perceptions of the degree of corruption as seen by business people and country analysts from around the world, including experts who are citizens in the countries evaluated. The score ranges between 10 (highly clean) and 0 (highly corrupt).

<http://www.transparency.org/>

## II. Credit Ratings:

Long-term foreign currency ratings and outlooks, indicating the likelihood of a sovereign default of the country, are provided as of the last date of upgrade or downgrade by the three leading credit rating agencies.

### III. Performance in eStandardsForum's Indices

eStandardsForum compiles country profiles and computes two indices for 81 countries.

#### 1. Business Indicator Index

The Business Indicator Index measures a country's attractiveness to foreign investment by analyzing various economic, legal, and political indicators. Countries are ranked from 1 to 81 according to a score ranging from 0 (least attractive) to 12 (most attractive). The overall score also determines whether a country is:

At Standard	9 to 12
Progressing toward standard	6 to 9
Below standard	0 to 6

#### 2. Standards Compliance Index

The Standards Compliance Index measures a country's level of compliance with the 12 international standards and codes. Compliance with each of the 12 standards is measured on a scale of six levels of compliance and then converted into a numerical score. The Index ranks countries from 1 (most compliant) to 81 (least compliant) and provides a score from 0 (worst performance) to 100 (best performance). Overall compliance is determined as follows:

very high	80 to 100
high	60 to 80
medium	40 to 60
low	20 to 40
very low	0 to 20

The chart provided with the summary of a country's performance against the Standards Compliance Index provides the exact levels of compliance with the 12 international standards and codes. The descending order of compliance is as follows: *Full Compliance, Compliance in Progress, Enacted, Intent Declared, No Compliance, and Insufficient Information*. Their definition is as follows:

**FULL COMPLIANCE:** There is publicly available information indicating that the country has incorporated the principles of the relevant standard into laws or regulations, and that these principles are currently being applied and followed in an effective, consistent, and transparent manner.

**COMPLIANCE IN PROGRESS:** There is publicly available information indicating that the country has incorporated the principles of the relevant standard into laws or regulations and that there has been significant progress made towards the effective enforcement of the laws or regulations by regulators and supervisors, albeit with minor shortcomings.

**INTENT DECLARED:** The country has made a formal, public, and authoritative declaration that it will incorporate the principles of the relevant standard into laws or regulations and will adhere to the standard.

**INSUFFICIENT INFORMATION:** There is not enough information publicly available to make an assessment as to the country's level of compliance with the relevant standard.

This section provides the executive summaries of eStandardsForum's country compliance reports against the 12 Key international standards and codes. The full assessments are available on the eStandardsForum website.

The three standards grouped under *Data and Macroeconomic Policy Transparency* are the IMF's Special (or General) Data Dissemination Standard, the Code of Good Practices in Monetary and Financial Policies, and the Code of Good Practices on Fiscal Transparency.

The six standards grouped under *Institutional and Market Infrastructure* are the World Bank's Principles and Guidelines for Effective Insolvency and Creditor Rights Systems, the International Accounting Standard Board's International Accounting Standards, the OECD's Principles of Corporate Governance, the International Federation of Accountants' International Standards on Auditing, the Financial Action Taskforce's Recommendations on Money Laundering, and the Bank for International Settlements' Core Principles for Systemically Important Payment Systems.

The three standards grouped under the *Financial Regulation and Supervision* sub-section are the Basel Committee's Core Principles for Effective Banking Supervision, the International Organization of Securities Commissions' Principles of Effective Securities Regulation, and the International Association of Insurance Supervisors' Insurance Core Principles.

#### **IV. Macroeconomic data:**

This section provides the latest GDP and GDP per capita figures, projected GDP growth, and inflation as provided by the latest available *IMF World Economic Outlook*, unemployment figures by the *CIA World Factbook*; the latest inward and outward foreign investment figures as reported in UNCTAD's annual *World Investment Report*; and the most recent figure for official development assistance (ODA) received or disbursed, as reported by the OECD.



### Standard : Special Data Dissemination Standard

Level of Compliance: **No Compliance**

#### Summary

Lebanon does not subscribe to the International Monetary Fund's (IMF) Special Data Dissemination Standard. It does, however, subscribe to the less rigorous General Data Dissemination System (GDDS), and has done so since January 2003, according to the GDDS website. A number of IMF sources have noted the existence of significant statistical weaknesses in a variety of areas, including national accounts and balance-of-payment data, price indices, labor statistics, demographics, and others. On the other hand, the IMF has found monetary and financial markets data, as well as central government budgetary accounts to be adequately covered. The deficiencies, taken together, are judged to have made effective economic monitoring more difficult. As of the 2009 IMF Article IV Consultations report, most of the previously noted deficiencies remain, and a comprehensive overhaul of the statistical regime is needed. Specific factors contributing to Lebanon's data dissemination difficulties include inadequate staffing at the Central Bank of Lebanon and the Central Administration for Statistics, as well as poor inter-agency cooperation. To improve its situation, Lebanon will require technical assistance.

#### General Overview

Lebanon does not yet participate in the International Monetary Fund's (IMF) Special Data Dissemination Standard (SDDS), but it is listed as a participant in the IMF's less rigorous General Data Dissemination System (GDDS). The GDDS website shows that Lebanon has been a participant since January 2003. As yet, no Data Module of the IMF's Reports on the Observance of Standards and Codes (ROSC) has been produced for Lebanon. At present, the only ROSC currently available for Lebanon is a Fiscal Module published in 2005. This ROSC incorporated some limited coverage of Lebanon's statistical regime, stating that problems were particularly notable in national accounts, balance of payments, employment data, and government statistics. A 2004 IMF report noted that technical assistance had been sought by the Ministry of Economy from the French National Institute of Statistics and Economic Studies, and that together they were developing national accounts statistics. As a result of this work, national accounts base year (1997) estimates were published in 2003. The last time official national accounts data had been published was in the mid-1970s.

The IMF's 2009 Article IV Consultations report states that Lebanon's statistics on GDP and consumer price index have been significantly improved, but cautioned that "data insufficiencies still hamper the analysis of real and external sector developments" (p. 25). The IMF called for the implementation of a comprehensive overhaul of the statistical system. Annex III of the IMF's 2009 report covers Lebanon's statistical issues in greater detail. This report asserts that, in

general, Lebanon is still handicapped by seriously deficient data provisioning, which makes surveillance most difficult. Datasets singled out as most problematic include national accounts data, employment data, statistics covering the general government and nonfinancial public sector, and balance of payments data. The Central Administration of Statistics (CAS) "still does not have the capacity to produce national accounts statistics in line with accepted international standards" (Annex III, p. 7), even though the CAS has received technical help from the French National Institute of Statistics and Economic Studies. The IMF notes that a statistical mission is currently working with Lebanese authorities to address some of the problems with the national accounts. On the other hand, the CAS began disseminating CPI data on a monthly basis since May of 2008, and these data are compiled according to internationally accepted methods. The data coverage has been expanded to include the whole of the country, rather than just the urban and suburban Beirut area.

Fiscal data is described in the 2009 IMF report as "weak" and "not comprehensive," failing to include certain significant classes of data or to identify certain expenditures and classifications ex-post, even though such information is available to staff for purposes of surveillance. Lebanon uses cash-based reporting for government finance statistics and a modified cash-basis for its budget spending data. It does not publish statistics for the quasi-fiscal activities of public corporations. In contrast to the fiscal data, Lebanon's monetary statistics are described as "adequate," but the IMF reports that "sectoralization of institutional units and classification of financial instruments in the data reported... fall significantly short of what is needed for compilation of Standardized Report Forms" (Annex III, p. 7). This shortcoming also negatively impacts the analysis of Lebanon's balance of payments data, which the IMF calls "weak." Certain data goes unreported (such as exports) or underestimated (private sector services, workers' remittances), and other deficiencies afflict the reporting of grants and financial accounts data. The report adds that "coverage of foreign direct investment transactions remains limited," and cites insufficient Central Bank of Lebanon (CBL) and CAS staffing, along with poor cooperation across government agencies, as factors contributing to these problems. Finally, the report notes that Lebanon needs to provide the GDDS with updates to both its metadata and its plans to improve its real and fiscal data.

The GDDS website lists three agencies as bearing primary responsibility for data collection and dissemination in Lebanon, namely, the CBL, the CAS, and the Ministry of Finance (MoF). The 2004 IMF report mentioned that the IMF has collaborated with Lebanon to help develop price indices. The results of early work, which involved the generation of 1999 quarterly price indices using 1997 survey data, were published in 2000. A new survey, which should enable the development of appropriate weightings for consumer prices, was being undertaken by the CAS. The 2004 IMF report noted that the CBL had adopted a new International Transactions Reporting System. According to the IMF, this should help to improve a better balance-of-payments statistical base.

Further information on compliance with the principles of this standard is provided below.

## **Comprehensive economic and financial data, disseminated on a timely basis.**

### **Level of Compliance: No Compliance**

According to the IMF's SDDS and GDDS websites, Lebanon does not subscribe to the SDDS, but participates in the GDDS's less rigorous reporting system. A 2005 IMF fiscal ROSC identified national accounts and balance-of-payment data, as well labor and demographic statistics, price indices, non-budgetary fiscal accounts, and public enterprise data as all displaying significant coverage gaps, and specifically noted limitations in the coverage of government statistics. At the time, the report attributed these shortcomings to a lack of interagency coordination and other institutional barriers. In

2009, the IMF reported that Lebanon's statistics on the GDP and the consumer price index have been significantly improved, but cautioned that "data insufficiencies still hamper the analysis of real and external sector developments" (p. 25). Fiscal data was described in the 2009 IMF report as "weak" and "not comprehensive," failing to include certain significant classes of data or to identify certain expenditures and classifications ex-post, even though such information is available to staff for purposes of surveillance. In contrast to the fiscal data, Lebanon's monetary statistics are described as "adequate," but the IMF reports that "sectoralization of institutional units and classification of financial instruments in the data reported... fall significantly short of what is needed for compilation of Standardized Report Forms" (Annex III, p. 7). This shortcoming also negatively impacts the analysis of Lebanon's balance of payments data, which the IMF calls "weak." Certain data goes unreported (such as exports) or underestimated (private sector services, workers' remittances), and other deficiencies afflict the reporting of grants and financial accounts data. The report adds that "coverage of foreign direct investment transactions remains limited," and cites insufficient Bank of Lebanon (BoL) and CAS staffing, along with poor cooperation across government agencies, as factors contributing to these problems. Finally, the report noted that Lebanon needs to provide the GDDS with updates to both its metadata and its plans to improve its real and fiscal data.

### **Ready and equal access to official statistics.**

#### **Level of Compliance: No Compliance**

According to the IMF's SDDS and GDDS websites, Lebanon does not subscribe to the SDDS, but participates in the GDDS's less rigorous reporting system. The Bank of Lebanon website discloses a wide range of publications that are open to public access, including monthly and quarterly bulletins, balance sheets, its Annual Report, press releases, and other such documents. The CAS website remains a work in progress, with access to very limited information beyond the Decree on the Organization of the CAS, enacted in 1980, Spreadsheet files of 2007 and 2008 monthly statistical data can be downloaded, as can copies of recent Statistical Yearbooks, again in spreadsheet form. Finally, the Ministry of Finance website allows public access to both fiscal performance reports and a range of time-series data. The IMF's 2005 fiscal ROSC reported that there is limited legal foundation for the provision of public access to fiscal data. The Public Accounting Law does not address this issue. Nonetheless, the ROSC found that, in practice, accessibility is good. The GDDS website discloses that unlike the CBL, the Ministry of Finance specifically offers simultaneous release of data to all interested parties and has a formal advance-release calendar protocol in place for certain budget-related data. CAS data is not made available to ministries in advance, nor is it accompanied by commentary. The CAS does produce advance-release calendars.

### **Official statistics must have the confidence of their users. Transparency of its practices and procedures is a key factor.**

#### **Level of Compliance: No Compliance**

According to the IMF's SDDS and GDDS websites, Lebanon does not subscribe to the SDDS, but participates in the GDDS's less rigorous reporting system. The IMF's 2005 fiscal ROSC found that, although Lebanon does have in place processes by which to reconcile budget, accounting, and financial data, the methodology employed is not made public. Lebanon does not provide data on the prior two years' budget outcomes, nor does it offer a projection for the budget year under consideration. According to the ROSC, Lebanon has offered no plans for expanding its coverage over a longer time horizon, or incorporating into the budget process a more broadly construed concept of government. The GDDS website discloses that there is ministerial pre-release access to CBL data and that data is released without ministerial commentary. The data from the Ministry of Finance may be accompanied by ministerial commentary, but there is no information that such commentary is identified. There is no identification of early ministerial access to Ministry of Finance data. Methodological changes are announced upon release of affected data.

**A set of standards that deals with the coverage, periodicity and timeliness of data must also address the quality of statistics.**

**Level of Compliance: No Compliance**

According to the IMF's SDDS and GDDS websites, Lebanon does not subscribe to the SDDS, but participates in the GDDS's less rigorous reporting system. The IMF's 2005 fiscal ROSC found that "the processes of account reconciliation and fiscal reporting allow for the reconciliation of budget, accounting, and financial data. But as the methodology is not published and the data not reported, their reliability cannot be assessed" (p. 25). Lebanon does not provide data on the prior two years' budget outcomes, nor does it offer a projection for the budget year under consideration. According to the ROSC, Lebanon has offered no plans for expanding its coverage over a longer time horizon, or incorporating into the budget process a more broadly construed concept of government. The IMF's 2009 Article IV Consultations report stated that Lebanon's statistics on the GDP and the consumer price index have been significantly improved, but cautioned that "data insufficiencies still hamper the analysis of real and external sector developments" (p. 25). The IMF called for the implementation of a comprehensive overhaul of the statistical system.

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<http://www.cas.gov.lb>

Central Bank of Lebanon - Banque du Liban (CBL)  
<http://www.bdl.gov.lb/>

Council for Development and Reconstruction - Conseil du Developpement et de la Reconstruction (CDR)  
<http://www.cdr.gov.lb/>

Ministry of Economy and Trade (MOET)  
<http://www.economy.gov.lb/MOET/English/>

Ministry of Finance (MoF)  
<http://www.finance.gov.lb/>

### **Relevant Legislation/Regulation**

Decree on the Organization of the CAS, No. 2728, 1980

[http://www.cas.gov.lb/Services\\_en.asp](http://www.cas.gov.lb/Services_en.asp)

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## Standard : Code of Good Practices on Transparency in Monetary Policy

Level of Compliance: Insufficient Information

### Summary

The Law for the Code of Money and Credit provides the Central Bank of Lebanon (CBL) with financial and administrative autonomy, but the International Monetary Fund's (IMF) 2005 Report on the Observance of Standards and Codes (ROSC) for Fiscal Transparency asserted that there have been times in the past when the CBL's independence has been compromised. Contributing to the problem is the CBL's own regulatory framework, in which the Minister of Finance nominates candidates for the posts of governor and ministerial representatives to serve on the CBL board of directors. The ROSC noted that such representatives are prohibited by law from interfering with the management of the CBL. Nonetheless, the situation contributes to a lack of clarity as to the respective roles and responsibilities in monetary and fiscal policy. In its 2007 Public Information Notice regarding the conclusion of that year's Article IV Consultations, the IMF suggested that clarity of roles and responsibilities could be enhanced if the CBL refrained from quasi-fiscal activities, established a joint working group in the Ministry of Finance, and the CBL better coordinated interventions in the financial market. The IMF also suggested that the CBL reduce its direct financing of the government. In its 2009 Article IV report, the IMF singled out two recent CBL achievements, both of which occurred in January of 2009. First, the CBL established an investment committee and drafted formal guidelines for foreign reserve management. Second, it adopted formal policies that govern the selection, appointment, and rotation of the CBL's external auditors. However, no comprehensive information is publicly available to enable an accurate assessment of Lebanon's overall level of compliance with the IMF's Monetary Policy Transparency Code.

### General Overview

The International Monetary Fund (IMF) has yet to produce a monetary transparency module of its Reports on the Observance of Standards and Codes (ROSC) for Lebanon, but in 2005 it did publish one on fiscal policy transparency that commented, in passing, on a few issues relating to monetary policy transparency. For instance, the 2005 ROSC noted that Lebanon's Central Bank (CBL) was granted administrative autonomy by the provisions of the Law for the Code of Money and Credit of 1963. The ROSC cautioned, however, that this autonomy has been subject to compromise. The bank's regulatory framework establishes conditions that enable such compromise. For instance, the Minister of Finance (MoF) proposes the individuals who may be considered for the offices of Governor and Deputy Governors, the Council of Ministers issues the final approval, and representatives of both the MoF and the Ministry of Economy and Trade (MOET) sit on the CBL's supervisory board. The law forbids the ministerial representatives from interfering with bank management, but it also requires that the CBL "coordinate with the government to ensure compatibility between the functions of the CBL and the objectives of the government" (p. 6). In light of this, the ROSC recommended that the CBL's independence be strengthened. Specific recommendations were that "the CBL should stop making loans, especially to the state-owned electricity company (EdL), and make publicly available information on its equity holdings" (p. 29).

According to the CBL website, the central bank is empowered to issue licenses for the establishment of banks, financial institutions, brokerage firms, money dealers, foreign banks, leasing companies, and mutual funds in Lebanon. Control and supervision of such institutions is the responsibility of the Banking Control Commission (BCC). Circulars and

resolutions that govern the relations between banks and their customers are issued by the CBL in consultation with the Association of Banks of Lebanon (ABL). The central bank website also acknowledges that the CBL and the government coordinate closely for the purpose of aligning their objectives. This means that fiscal and monetary policy, too, are coordinated. The website notes that the CBL "informs the Government on economic matters that might negatively affect the national economy and currency and suggests measures that might benefit the balance of payments, the price level, public finance and offers advice on how to promote economic growth." On this subject, the 2005 ROSC notes that such coordination and policy exchanges occur regularly but informally, and remarks that "in the past, this has led to some tensions in policy choices and weakened central bank independence" (p. 10). The IMF's 2006 Article IV Consultations report also noted this tension between the CBL and the MoF and that it has at times led to poorly coordinated government and central bank policies, but asserted that this had not happened recently. The report applauded a decision by the MoF to avoid recourse to CBL financing and to repay certain outstanding loans. The IMF also noted the CBL's willingness to address the problem of loss-making operations, noting that recourse to these was sought not by choice but through necessity. The IMF predicted that a rapid decline in CBL losses would likely only occur after 2009, given current obligations. While the CBL has several strategies in mind to reduce its losses, including the introduction of new fees and the sale of certain of its assets (including Middle East Airlines), the IMF suggested that additional measures would be required to hasten the reduction of CBL losses. Finally, the 2006 IMF report did assert that the CBL's reporting of monetary statistics to the Fund is generally reliable and timely. When a report of data to the International Financial Statistics is delayed on occasion, it has nonetheless been available on the CBL website. Similarly in the IMF's Executive Board discussion to the 2007 Article IV Consultations report, the IMF Directors cautioned the central bank to reduce the direct financing of the government in order to maintain a healthy balance sheet, which should be supported by the Lebanese authorities' intention to rely more on market finance in the future. In this context, and in order to better separate the roles played by the CBL and the MoF, the Executive Board also suggested that the CBL stay away from quasi-fiscal activities, and supported the establishment of a joint working group in the MoF and the CBL to better coordinate interventions in the financial market. Regarding the monetary policy instruments of the CBL, the IMF Board supported the planned introduction of transparent short-term monetary instruments, and also underscored the importance of allowing greater interest rate flexibility in Treasury bill auctions.

In the 2009 IMF Article IV Consultations report, the Fund noted that the CBL had achieved a couple of recent improvements that should touch on transparency. In January of 2009, it established an investment committee and drafted formal guidelines for foreign reserve management. At the same time, it successfully adopted formal policies governing the selection, appointment, and rotation of the central bank's external auditors. The 2009 report found Lebanon's monetary statistics to be "adequate" (Annex III, p. 7). Nonetheless, it asserted that certain methodological issues (sectoralization of institutional units, classification of financial instruments) were inadequate to permit the compilation of Standardized Report Forms. According to the report, this shortcoming makes analysis of balance of payments more complicated. In addition, the report found that "the reporting of monetary data to STA is irregular and occurs with a three- to four-month lag" (Annex III, p. 7). Lebanon does not subscribe to the IMF's Special Data Dissemination Standard (SDDS), but participates in the less rigorous General Data Dissemination System (GDDS).

Further information on compliance with the principles of this standard is provided below.

## **Clarity of roles, responsibilities and objectives of central banks.**

**Level of Compliance:** Insufficient Information

According to the CBL website, the Law on Money and Credit (1963) established the central bank as a "legal public entity enjoying financial and administrative autonomy." The website asserts that the CBL is exempt to the regulations that apply to public sector entities, and its capital is "totally appropriated by the State." The mission of the CBL is to maintain the integrity of the national currency and thus to sustain social and economic growth. In addition, it is mandated to maintain the soundness of the broader banking sector, foster the development of financial markets, develop and oversee the payments systems and money transfer operations, and develop and oversee clearing and settlement operations. By law, the CBL is empowered to use all appropriate measures to ensure exchange rate stability. It is specifically permitted to intervene in the foreign exchange market by buying and selling foreign currencies. Bank liquidity is controlled by the CBL through its control over discount rates, market interventions, and credit availability to banks and other financial institutions. This latter activity is accomplished by deliberate, targeted credits to particular sectors or for particular uses, and by exercising its right to regulate credit in general.

Although the Law on Money and Credit asserts administrative autonomy for the CBL, the IMF's 2005 ROSC found that this autonomy has been known to be compromised and suggests that the bank's regulatory framework establishes conditions that enable such compromise. For instance, the Minister of Finance proposes the individuals who may be considered for the offices of Governor and Deputy Governors, the Council of Ministers issues the final approval, and representatives of both the Ministry of Finance and the Ministry of Economy and Trade sit on the CBL's supervisory board. The law forbids that the ministerial representatives not interfere with bank management, but it also requires that the CBL "coordinate with the government to ensure compatibility between the functions of the CBL and the objectives of the government" (p. 6). In light of this situation, the 2005 ROSC recommended that the CBL's independence be strengthened. Specific recommendations were that "the CBL should stop making loans, especially to the state owned electricity company (CBL), and make publicly available information on its equity holdings" (p. 29). The foregoing notwithstanding, there is no publicly available information that directly addresses Lebanon's compliance with this principle.

### **Open process for formulating and reporting monetary policy decisions.**

#### **Level of Compliance: Insufficient Information**

According to the CBL website, the bank's Department of Statistics and Economic Research is responsible for publishing monthly, quarterly, and annual bulletins on key financial and economic indicators on the website. There is, however, no publicly available information that directly addresses Lebanon's compliance with this principle.

### **Public availability of information on monetary policy.**

#### **Level of Compliance: Insufficient Information**

There is no publicly available information that directly addresses this principle. However, the CBL website discloses that its Department of Statistics and Economic Research publishes monthly, quarterly, and annual bulletins on key financial and economic indicators online. While the CBL website is relatively user-friendly, the same cannot be said for the other major source of monetary-related data, the Central Agency for Statistics, much of which remains under construction. Lebanon is not a subscriber to the IMF's SDDS, but has participated in the less rigorous GDDS since January 2003. Advance release calendars are not issued to notify the public of the release of information, and there is pre-release of CBL data to certain ministries prior to releasing it to the public.

### **Accountability and assurances of integrity by the central bank.**

#### **Level of Compliance: Insufficient Information**

There is no publicly available information that directly addresses this principle. However, the 2005 IMF ROSC reports that the CBL receives its legislative mandate for financial and administrative autonomy from the Law on Money and Credit. The report cautions that the CBL's independence has been known to be compromised in previous years. Contributing to the possibility of compromise is the CBL's own regulatory framework, which places the nomination of bank governor and deputy governors in the hands of the Minister of Finance and the final appointment in the hands of the Council of Ministers. In the 2009 IMF Article IV Consultations report, the Fund noted that Lebanon's monetary statistics were "adequate" (Annex III, p. 7). Nonetheless, it asserted that certain methodological issues (sectoralization of institutional units, classification of financial instruments) were inadequate to permit the compilation of Standardized Report Forms. According to the report, this shortcoming makes analysis of balance of payments more complicated. In addition, the report found that "the reporting of monetary data to [the Fund statistics mission] is irregular and occurs with a three- to four-month lag" (Annex III, p. 7).

## ANNEX

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<http://www.imf.org/external/pubs/ft/scr/2009/cr09131.pdf>

### Relevant Organizations

Association of Banks in Lebanon (ABL)

<http://www.abl.org.lb/>

Banking Control Commission (BCC)

<http://www.bdl.gov.lb/bdl/BCC.htm>

Central Administration for Statistics (CAS)

<http://www.cas.gov.lb>

Central Bank of Lebanon (Banque du Liban) (CBL)

<http://www.bdl.gov.lb/>

### Relevant Legislation/Regulation

Law for the Code of Money and Credit, 1963

<http://www.bdl.gov.lb/circ/en/moncr.htm>

Code of Commerce, 1942

[http://www.gbld.org/xml/Lebanon/Lebanon\\_CC.doc](http://www.gbld.org/xml/Lebanon/Lebanon_CC.doc)

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## Standard : Code of Good Practices on Transparency in Fiscal Policy

Level of Compliance: **No Compliance**

### Summary

The International Monetary Fund (IMF), in the fiscal module of its 2005 Report on the Observance of Standards and Codes (ROSC), notes that Lebanon needs to implement institutional and legislative reforms to improve transparency and accountability within the budgetary process. Both in terms of budget preparation and information integrity, the ROSC cites the need for improvements in order to meet the requirements of the IMF's Code of Good Practices on Transparency in Fiscal Policy. Some progress was acknowledged in the ROSC, however. Lebanon adopted a new budget classification standard in 1997 that comports with the methodology employed in the 1986 Government Finance Statistics Manual. It has brought computerization into the fiscal process, and the Ministry of Finance has begun to provide more regular and timely publications on fiscal policy and outcomes. The ROSC also applauded the ongoing progress toward establishing a unitary Treasury account. Nonetheless, the ROSC noted a number of specific shortcomings in Lebanese fiscal policy transparency, including the lack of an external audit, the failure to include audited statements of prior-year budget performance in the current year's budget document, and the continuing reliance on extra-budgetary and quasi-fiscal activities within the budget. The 2009 IMF Article IV Consultation report documents further tax law reforms, but it observes that there is a need for an overhaul of the statistics system. According to the Open Budget Index for 2008, Lebanon's budget documentation provides only minimal information to the public.

### General Overview

In 2005, the International Monetary Fund (IMF) published the fiscal transparency module of its Report on the Observance of Standards and Codes (ROSC) for Lebanon, in which it stated that Lebanon misses the mark in a number of areas, particularly with regard to budget preparation and information integrity. The IMF called for reforms that would include the passage of an organic budget law, and cited gaps in existing legislation that impede transparency and accountability. While legislative reform is important, however, many of the ROSC's recommendations do not require changes in the existing law. The ROSC reported that, in order to improve performance in meeting transparency requirements, Lebanon has adopted a new classification system that draws upon the methodology of the Government Finance Statistics Manual of 1986. It has also introduced computerization into the process. As of 2005, Lebanon had nearly finished creating a unitary treasury account. It also improved both the timeliness and regularity of its publications regarding fiscal performance. The ROSC cautioned that Lebanon still lacked a functional medium-term budget framework and was not comprehensive enough in its coverage of government activities and state-owned enterprises. There was a great deal of reliance on extra-budgetary and quasi-fiscal activity. Audit procedures were also found to be inadequate. There is no external audit at all, and the budget document does not include an audited report of prior years' execution.

Together, the Lebanese Constitution and the Law on Public Accounting of 1963 provide the core legal basis for the budget process. By law, the Ministry of Finance (MoF) must prepare a draft budget annually, upon consultation with the government ministries. This draft must be submitted to the Council of Ministers for review and approval. The ROSC found that this constitutionally derived function of the parliament in the budget process is undermined by insufficient information and inadequate resources. To address this problem, the ROSC recommended a fundamental overhaul,

which would include legislative changes. The IMF's 2006 Article IV Consultation reported it was critical that Lebanon implement stronger management procedures for public spending, as well as improvements in the transparency and accountability of the budget process. In that report's "Statement by the Executive Director," it was noted that the IMF had provided Lebanon's MoF with assistance to develop "an action plan for public financial management reform, with a clear time-bound outline of measures" (p. 3). In addition, the statement announced the government's plans for legislative change, including new fiscal accountability and public procurement laws to improve the control of financial dealings by state-owned enterprises. There is no evidence, as yet, that progress has been made on this front.

The MoF publishes yearly budget reports on its website, although the IMF's 2004 Report on Interim Staff Visit found the website's monthly publication of central government budgetary accounts data to be non-comprehensive. According to the IMF report, "the published figures do not include certain transfers and financing data, omit foreign-financed capital expenditure, and do not cover arrears" (p. 37). That report, as well as subsequent IMF publications - up to and including the 2009 IMF Article IV Consultations report - catalogs a wide range of further fiscal data deficiencies, including methodological shortcomings. The 2009 report added that "several structural fiscal reforms are under preparation" (p. 19), including reform of the tax procedure code and the creation of a cash management unit in late 2008. A draft Global Income Tax bill was nearly ready for parliamentary and ministerial consideration, and parliament was debating the merits of legislation creating a single treasury account.

The 2008 Open Budget Index (OBI) of the International Budget Initiative gave Lebanon a score of 32 percent, judging that it was providing "minimal information to the public in its budget documents during the year." The OBI tracks the production and public access of eight key budget documents: the Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, Citizen's Budget, In-Year Reports, Mid-Year Review, Year-End Report, and Auditor's Report. Lebanon makes five of these documents publicly available, but does not produce a Pre-Budget Statement, Citizen's Budget, or Mid-Year Review. The executive's budget proposal provides some information, but not enough to permit the public to develop a comprehensive understanding of the government's budgetary planning for the year. In addition, the OBI found it "somewhat difficult to track spending, revenue collection, and borrowing during the year." The Year-End Review lacks sufficient detail, and the Auditor's Report is issued with a significant time-lag, without providing information as to whether the audit's recommendations have been acted upon and with what success. There is access to the detailed information upon which the budget is based. There is no "right to know" legislation as yet. A draft bill was being considered, but progress here has been stalled. The Lebanese Supreme Audit is not independent, lacking the discretion to choose its audit targets and lacking adequate funding. The legislature does not hold hearings on the budget in which citizens may participate.

Further information on compliance with the principles of this standard is provided below.

## **Clarity of roles and responsibilities.**

### **Level of Compliance: Enacted**

The primary legislation covering Lebanese fiscal policy is the Constitution of 1926, amended through 1996, and the Public Accounting Law of 1963. According to the IMF's 2005 fiscal ROSC, the legislation provides a clear definition of the various government agencies, and the constitution provides a clear statement of the different roles and responsibilities assigned to the three branches of government. It also provides a clear differentiation between government activities, the activities of public financial institutions, and the activities appropriate to non-financial public entities. The ROSC adds that, "public bodies of the central administration do not undertake commercial activities. Quasi-

budgetary operations undertaken by non-budgetary entities are limited in nature, although their size can be large" (p. 5). However, the ROSC found that the financial relationships between the executive branch and the broader public sector are unclear, due in part to inadequate enforcement of the relevant legislation regarding financial reporting. Similar reporting problems exist in the area of government equity holdings, which can be extensive. The public at large does not have access to any list of the government's equity holdings. The ROSC further found that "relations between the budget and some key autonomous entities are not well defined and are characterized by weak coordination and a lack of transparency that hinders the assessment of underlying fiscal risks" (p. 9). In the absence of a formal law governing the budget process, the Law of Public Accounting provides some guidance, but lacks comprehensiveness. According to the ROSC, the Law "does not include provisions on the content and structure of the annual budget law, nor does it specify a resource allocation strategy taking into account macroeconomic and fiscal constraints" (p. 8). However, the ROSC does note progress in the area of tax law. According to the report, the Customs Code of 2000 and the Value-Added Tax (VAT) Law of 2002 are largely consistent with international standards and employ modern principles of tax policy. Nonetheless, there is no uniform tax code, and there is no agency tasked with the development of a coherent tax policy. The IMF's 2009 Article IV Consultation reported that a new tax procedure code was approved in late 2008, and a new Global Income Tax bill is being prepared for consideration by Parliament and the Council of Ministers. In addition, a tax-administration restructuring initiative has begun. With regard to ethical responsibilities, the ROSC reported that the Office of the Minister of State and Administrative Reform published a Code of Conduct for all Lebanese civil servants in February 2002 that addressed the rights and responsibilities of all employees in the public sector. At the time of the ROSC, the MoF was still preparing a similar document, and the Council of Ministers approved a "citizen's charter" that called for the creation of a new relationship between Lebanese citizens and the public administration. The ROSC notes that additional legislation or other regulations are in the works, dealing with such issues as "illicit enrichment" and the use of public funds. To address Lebanon's many problems in the area of clarity of roles and responsibilities, the ROSC made several broad recommendations, such as strengthening the MoF and key central agencies, adopting an organic budget law, strengthening relations with line ministries and other public bodies, and developing a tax unit, to name a few.

## Open budget processes

### Level of Compliance: **No Compliance**

The 2005 IMF ROSC found that Lebanon's system of budget classification is consistent with the standard set by the Government Finance Statistics of 1986, and that the budget is prepared according to a timeframe that, on paper, meets the requirements of international best practice. However, political issues have at times been allowed to interfere with the meeting of formally established deadlines. The formulation and execution of the annual budget is not governed by any overarching budget law, but is covered under the provisions of the Constitution and the Public Accounting Law. According to the ROSC, the Law on Public Accounting provides the procedures to be used in budget preparation and execution, establishes the timetable for the process, and allocates accountability. However, the IMF found the law to be insufficiently comprehensive.

The budget documents provide only limited discussion of the macroeconomic assumptions that underlay the budget, and the MoF does not contain a formal unit dedicated to the development of a macroeconomic framework. Because of this, the budget also fails to provide much information on medium-term policy objectives. All in all, Lebanon evinces a poorly integrated expenditure management cycle. In the words of the ROSC, "a comprehensive internal control system is in place, but there are duplications, implementation is weak, and not all public entities are covered" (p. 15). The ROSC acknowledged that some progress toward international standards have been achieved in the central government's accounting system, but notes that the lack of comprehensive data coverage within the budget renders accounting reports limited in their utility. The lack of internal audit units within agencies of the central government poses

another problem. The ROSC noted that internal audits generally fall to the Central Inspection Board, created in November 1959. However, the board's primary concern is to see that public funds are used appropriately, and its focus is on enforcing compliance with existing law.

The ROSC asserted that, in the absence of a formal mid-year budget review by the legislature, the MoF is called upon to provide information at the midpoint of the budget cycle, and may be called upon to answer other questions posed by the legislature as they might arise. Final accounts at the end of the budget year are subject to a significant lag. As of the ROSC report, the Treasury had succeeded in producing only the core financial accounts for the year 1997, although it was expected that similar reports for the years 1998 to 2000 would be available in the near term. The ROSC reported that the Paris II agreement has led to the initiation of a reform effort that includes fiscal policy practices. The ROSC recommended that the MoF be given the legislative and institutional capability to more effectively fulfill its primary functions.

The 2008 Open Budget Index (OBI) of the International Budget Initiative gave Lebanon a score of 32 percent, judging Lebanon to be providing "minimal information to the public in its budget documents during the year." The OBI tracks the production and public access of eight key budget documents: the Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, Citizen's Budget, In-Year Reports, Mid-Year Review, Year-End Report, and Auditor's Report. Lebanon makes five of these documents publicly available, but does not produce a Pre-Budget Statement, Citizen's Budget, or Mid-Year Review. The executive's budget proposal provides some information, but not enough to permit the public to develop a comprehensive understanding of the government's budgetary planning for the year. In addition, the OBI found it "somewhat difficult to track spending, revenue collection, and borrowing during the year." The Year-End Review lacks sufficient detail, and the Auditor's Report is issued with a significant time-lag, without providing information as to whether the audit's recommendations have been acted upon and with what success. There is access to the detailed information upon which the budget is based. There is now "right to know" legislation as yet, A draft bill was being considered, but progress here has been stalled. The Lebanese Supreme Audit is not independent, lacking the discretion to choose its audit targets and lacking adequate funding. The legislature does not hold hearings on the budget in which citizens may participate.

## Public availability of information.

### Level of Compliance: **No Compliance**

The IMF's 2005 ROSC noted that Lebanon's budget documents exclude all information regarding local governments, extrabudgetary funds, and data on foreign-financed investments. The data that is provided fails to meet international standards, and excludes Treasury advances and other central government lending activity. The ROSC further found that Lebanon's annual budget provides only limited data regarding prior years' budget performance and makes no projections into future years. Although data on contingent liabilities are available to the budget planners, they are not fully assessed, and data regarding unfunded entitlements are excluded from the budget as well. While data on the public debt is provided, there is no comparable treatment of the government's financial assets. Although the ROSC team found that the public generally has good access to fiscal data, there is little legislative guarantee that such information be published. The Law on Public Accounting does not mandate fiscal reporting, but the MoF has undertaken the task of publishing a variety of documents on its website, including quarterly financial statements, a monthly statistical table, and an annual economic and fiscal report, as well as special occasional publications. In 2004, Nasser Saidi reported that Lebanon's central bank was working with a variety of international organizations to create LebStat, the Lebanese Statistical Portal, to provide a single point of access for members of the public who wished to access a wide range of economic statistical data. This has yet to be achieved. According to the IMF's General Data Dissemination System (GDDS) website, Lebanon subscribes to the GDDS and began posting metadata on the IMF's site in January 2003.

However, Lebanon does not subscribe to the more rigorous Special Data Dissemination Standard (SDDS). The 2009 IMF Article IV report stated that an overhaul of Lebanon's overall statistical system is required.

### **Independent assurances of integrity.**

#### **Level of Compliance: No Compliance**

The IMF's 2005 ROSC found a number of significant shortcomings in Lebanon's ability to provide independent assurances of integrity with regard to fiscal data. Budget estimates are unreliable due to the government's reliance on off-budget advances from the treasury, for example, and there are large differences between the amount of budgeted investment spending and expenditures that are actually made. The ROSC noted that there are procedures in place for fiscal and accounting data reconciliation, and the MoF has a dedicated accounting unit. However, the methodology employed is not made public, nor is the source data reported publicly, so the reliability of the procedures is in question. In addition, the ROSC found that there are significant deficiencies in the preparation of the annual budget, first because the process pays insufficient attention to macroeconomic constraints, and second because of significant coverage gaps in national accounts, price data, non-budgetary fiscal accounts, labor statistics, social indicators, and other important datasets. The IMF's SDDS and GDDS websites disclose that, at present, Lebanon does not subscribe to the SDDS, but participates in the less rigorous GDDS program. It first subscribed to the GDDS on January 16, 2003.

Lebanon's external audit function is the province of the Court of Accounts (CdC). Although legislation establishes the CdC's independence, the ROSC found that the relationship between the CdC and the executive branch of government does not meet internationally recognized standards. The 2008 OBI noted that the Lebanese Supreme Audit's independence is compromised by insufficient resourcing and the lack of discretion to choose its audit targets. The ROSC staff found that no external audit is done of the final report on budget execution or on the financial accounts. Further, the ROSC adds that such reports as are generated by the CdC receive no follow-up by the legislature. Finally, a lack of institutional coordination and other issues make it difficult to upgrade the government's statistical systems. The ROSC does note that there is broad recognition by the government that these shortcomings exist, but current reform efforts are hampered by the fact that they are undertaken piecemeal by a variety of agencies. The 2009 IMF Article IV Consultation report stated that the statistical system is in need of a complete overhaul.

## ANNEX

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### Relevant Organizations

Bank of Lebanon - Banque du Liban (CBL)

<http://www.bdl.gov.lb/>

Central Administration for Statistics (CAS)

<http://www.cas.gov.lb>

Parliament of Lebanon (in Arab and French only)

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Ministry of Finance (MoF)

<http://www.finance.gov.lb/>

### Relevant Legislation/Regulation

Constitution of Lebanon, 1926 amended through 1996 (in Arabic only)

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## Standard : International Financial Reporting Standards

Level of Compliance: **No Compliance**

### Summary

A 2003 World Bank review of the accounting and auditing environment in Lebanon noted that the ministerial order of 1996 required the adoption of International Financial Reporting Standards (IFRSs) "with exceptions" for most companies. Listed companies are required to follow IFRSs, however, banks must follow rules set by the Banking Control Commission, which differ from IFRSs, the World Bank noted. With regard to small companies, the World Bank report pointed out that these entities are exempt from IFRSs requirements. Overall, the World Bank reported that despite the adoption of international standards, significant compliance gaps exist in both accounting and auditing practices, although fewer gaps were observed with banks and listed companies. Camille C. Sifri, in a 2004 presentation, reiterated the fact that mandatory implementation as well as effective enforcement of IFRSs was limited to publicly listed companies and banks. World Bank recommendations included, but were not limited to, adopting new laws regulating accounting and auditing, requiring the application of IFRSs by all public interest entities, reforming the role of the Higher Council on Accounting as the professional oversight body, and upgrading the licensing procedure for accountants in public practice.

### General Overview

A World Bank review of the accounting and auditing environment in Lebanon led to the publication of a Report on the Observance of Standards and Codes (ROSC) in May 2003. International Financial Reporting Standards (IFRSs) (formerly known as International Accounting Standards, or IASs) and International Standards on Auditing (ISAs) were used as the benchmarks for assessing national standards. As pointed out in the ROSC, the Ministry of Finance (MoF) issued Order No. 1/6258 in 1996, announcing the adoption of IFRSs for most companies, although with exceptions. At the time of the assessment, a list of applicable IFRSs was being published annually in the Official Gazette. The Ministerial Order authorized the use of the official English version when resolving differing interpretations of accounting standards. However, the World Bank noted that, despite the adoption of international standards, significant compliance gaps existed both in accounting and auditing practices, although fewer gaps were observed with banks and listed companies. The World Bank advised the Lebanese government to review the legislative base underlying accounting, auditing, corporate financial reporting, and the accounting profession in the country and to introduce mandatory requirement for public interest entities to follow IFRSs.

According to the description of the legal framework provided in the World Bank report, Lebanese accounting and auditing practices are primarily governed by the Code of Commerce, which covers joint stock companies, limited liability companies, and partnerships. The World Bank pointed out that although Lebanon adopted IFRSs, the use of IFRSs for regulated entities could conflict with a few of the provisions in the Code of Commerce. Furthermore, the assessment noted that general purpose accounting was largely driven by tax laws and decrees. As a result, treatment of certain elements deviated from the requirements of IFRSs. The World Bank explained that "although the Ministerial Order mandates the use of IAS, Law No. 27 (1980) still requires all commercial entities, except banks, to follow a unified chart of accounts" (p. 2), which is enforced by Lebanese tax authorities.

Under the Code of Money and Credit, banks are required to follow reporting rules specified by the Banking Control Commission (BCCL), a banking supervisory authority. These requirements were "largely consistent with IAS, but with some significant deviations" (p. 3). In accordance with the Beirut Stock Exchange (BSE) directives, listed companies are required to prepare legal entity and consolidated financial statements in accordance with IFRSs. Listed companies are required to file annual and semi-annual financial statements, and the BSE also gets the annual financial statements of listed companies reviewed by external auditors, in order to monitor compliance with IFRSs. The World Bank assessment noted that although the BSE has the power to suspend trading or to delist non-compliant companies, it "lacks the necessary authority to penalize or blacklist financial statements preparers and auditors" (p. 7). A Ministry of Finance's 2006 report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. The 2009 U.S. Department of Commerce report adds that the law is now awaiting parliamentary approval. The insurance sector is regulated by the Insurance Control Commission (ICC). At the time of the World Bank assessment, annual financial statements for insurance companies were required to comply with IFRSs and the ICC was in the process of developing new laws with specific accounting requirements for insurers.

The Higher Council on Accounting (HCA) performs the oversight function for the accounting and auditing professions. The World Bank assessment recommended redefining its role and functions to improve supervision of practicing auditors and enhance the quality of professional education and training. The World Bank also recommended upgrading the licensing procedure for accountants in public practice. According to the assessment, the 1994 Act Regulating the Accountancy Profession in Lebanon provides the regulatory framework for the accounting profession and empowers the Lebanese Association of Certified Public Accountants (LACPA) to regulate public accountants and auditors. The 2007 LACPA self-assessment notes that the LACPA adopted the International Federation of Accountants (IFAC) Code as issued, without modifications. The LACPA is listed as a member on the IFAC website.

Further information on compliance with the principles of this standard is provided below.

### **IFRS 1: First-time Adoption of International Financial Reporting Standards (revised 2009)**

#### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

### **IFRS 2: Share-based Payment (revised 2009)**

#### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

### **IFRS 3: Business Combinations (revised 2009)**

#### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "in several banks, the amortization of goodwill appeared to be determined by the BCC rather than by the useful life of that goodwill" (p. 9).

**IFRS 4: Insurance Contracts (effective 2006)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "when the insurance sector is covered under IASs, the Insurance Control Commission plans to adopt this IFRS to serve as a basis for public, shareholder and supervisory purposes" (p. 4).

**IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (revised 2009)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IFRS 6: Exploration for and Evaluation of Mineral Resources (effective 2006)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IFRS 7: Financial Instruments: Disclosures (effective 2007)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IFRS 8: Operating Segments (effective 2009)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 1: Presentation of Financial Statements (revised 2009)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "contrary to the applicable standard, the financial statements of many companies do not include the statement of changes in equity" (p. 10).

**IAS 2: Inventories (effective 2005)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "few companies follow all the requirements related to measuring and disclosing inventory between the lower of cost or market value" (p. 10).

**IAS 7: Cash Flow Statements (effective 1994)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "the sampled banks use differing definitions of cash and cash equivalents, which make comparison among banks difficult" (p. 9).

**IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (effective 2005)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 10: Events after the Reporting Period (effective 2005)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 11: Construction Contracts (effective 1995)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 12: Income Taxes (effective 2001)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "none of the sampled companies provided for deferred taxes on temporary differences" (p. 9).

**IAS 16: Property, Plant and Equipment (revised 2009)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "all sampled companies appeared to use tax rules to determine accounting depreciation, which may not comply with IAS 16, Property, Plant, and Equipment" (p. 9).

**IAS 17: Leases (effective 2005)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 18: Revenue (effective 1995)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "in certain cases, when dealing with government contracts, revenues are reported only when received rather than when earned, as required under accrual accounting" (p. 10).

**IAS 19: Employee Benefits (revised 2009)****Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "while sampled companies recognized the existing difference based on current salaries, the amounts recognized may not comply with IAS 19, Employment Benefits, because they are not based on an actuarial computation" (p. 9).

## **IAS 20: Accounting for Government Grants and Disclosure of Government Assistance (revised 2009)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 21: The Effects of Changes in Foreign Exchange Rates (effective 2005)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 23: Borrowing Costs (revised 2009)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 24: Related Party Disclosures (effective 2005)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "a reader of financial statements may not be able to form a view about the effects of related party relationships on a reporting enterprise" (p. 9).

## **IAS 26: Accounting and Reporting by Retirement Benefit Plans (effective 1998)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 27: Consolidated and Separate Financial Statements (revised 2009)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that the BSE requires all listed companies to prepare legal entity and consolidated financial statements under IASs. Further, the Banking Law requires all banks to follow accounting and auditing requirements set by the BCC. However, the assessment pointed out that "these requirements are largely consistent with IASs, but with some significant deviations" (p. 3).

## **IAS 28: Investments in Associates (revised 2009)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 29: Financial Reporting in Hyperinflationary Economies (revised 2009)**

### **Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

## **IAS 31: Interests in Joint Ventures (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 32: Financial Instruments: Disclosure and Presentation (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 33: Earnings per Share (effective 2005)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 34: Interim Financial Reporting (effective 1999)**

**Level of Compliance: Insufficient Information**

The World Bank assessed compliance with existing requirements and noted that the BSE requires all listed companies file annual and semi-annual financial statements. However, there is insufficient information available regarding Lebanon's compliance with this principle.

**IAS 36: Impairment of Assets (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 37: Provisions, Contingent Liabilities and Contingent Assets (effective 1999)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 38: Intangible Assets (effective 2004)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 39: Financial Instruments: Recognition and Measurement (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle. The World Bank assessed compliance with existing requirements and noted that "interest revenue recognition on bad loans differs from IAS 39 requirements" (p.9).

**IAS 40: Investment Property (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

**IAS 41: Agriculture (revised 2009)**

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with this principle.

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### Relevant Organizations

Banking Control Commission of Lebanon (BCCL)

<http://www.bccl.gov.lb/>

Beirut Stock Exchange (BSE)

<http://www.bse.com.lb>

Central Bank of Lebanon - Banque du Liban (CBL)

<http://www.bdl.gov.lb>

Higher Council on Accounting (HCA)

Insurance Control Commission (ICC)

<http://www.economy.gov.lb/MOET/English/Panel/Insurance/ICC.htm>

Lebanese Association of Certified Public Accountants (LACPA)

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Middle East Society of Accountants (MESA)

Ministry of Economy and Trade (MOET)

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Ministry of Finance (MoF)

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Special Investigation Commission (SIC)

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Ministerial Order No. 1/6258, 1996

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## Standard : Principles of Corporate Governance

Level of Compliance: **Intent Declared**

### Summary

According to a 2005 report on corporate governance in Lebanon by the Institute of International Finance (IIF), although the Lebanese government has given high priority to improving its legal and institutional framework for corporate governance, important gaps remain, and the judicial system still lacks independence. Furthermore, minority shareholders' rights are not adequately protected and the responsibilities of the Board are not well defined. Therefore, the IIF Equity Advisory Group recommended applying the guidelines of the 2002 IIF Corporate Governance Code and preparing a corporate governance code on a mandatory or "comply-or-explain" basis. It further advised establishing an independent securities supervisory authority to ensure effective enforcement. In 2002 the Lebanese Corporate Governance Task Force was put in place by the Lebanese Transparency Association (LTA) to design and implement projects on corporate governance in Lebanon. In 2006, the LTA adopted a Lebanese Code of Corporate Governance, and implemented the European Union (EU) Association Agreement, which requires Lebanese companies to adopt corporate governance principles in line with EU legislation. A 2006 Ministry of Finance report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. The 2009 U.S. Department of Commerce report adds that the law is now awaiting parliamentary approval. On October 11, 2007, the International Finance Corporation (IFC) signed a Memorandum of Understanding with the LTA to establish an institute that will promote better corporate governance practices in Lebanon.

### General Overview

According to a 2005 report on corporate governance by the Institute of International Finance (IIF), the Lebanese government has given high priority to improving its legal and institutional framework for corporate governance, notably by improving disclosure of information, adopting International Financial Reporting Standards (IFRS) for listed companies, and requiring disclosure of ownership stakes in companies. Despite these efforts, however, important gaps remain in the regulatory and institutional environment, and the judiciary system still lacks independence. Furthermore, minority shareholders' rights are not adequately protected, and responsibilities of the Board are not well defined. Therefore, the IIF Equity Advisory Group (EAG), which acts as the Corporate Governance Task Force for Lebanon, recommended applying certain guidelines of the IIF Corporate Governance Code and preparing a corporate governance code on a mandatory or "comply-or-explain" basis. The report added that the IIF Code was adopted in 2002, and seeks to "improve the investment climate by establishing practical guidelines for the treatment of minority shareholders, the structure and responsibilities of the board of directors, and the transparency of ownership and control of companies" (p. 1). The IIF Code differs from the broader Organization of Economic Cooperation and Development (OECD) Principles in that the former is more detailed and aimed at implementation, but does not diverge from the OECD principles in substance. The EAG further advised creating an independent securities supervisory authority to ensure effective enforcement. Following the 2005 IIF assessment, the Lebanese Transparency Association (LTA) adopted a Lebanese Code of Corporate Governance in 2006, which aims to address some of the shortcomings mentioned above.

As noted on the International Finance Corporation (IFC) website, the LTA was founded in 1999 to promote transparency, accountability, and democracy, and to fight corruption in Lebanon. The Lebanese Corporate Governance Task Force (LCTF) was incorporated as an LTA initiative in 2002 and is responsible for the design and implementation of projects on corporate governance. According to the Center for International Private Enterprise's (CIPE) report published in 2005, the LCTF has been working on projects to implement a set of corporate governance principles and to amend the Code of Commerce, as well as to effect changes in other laws and institutions. Furthermore, it has created a network of companies that comply with corporate governance principles, and is seeking to promote the concept of "leading by example" (p. 11). In April 2006, Lebanon implemented the European Union (EU) Association Agreement, which requires Lebanese companies to adopt corporate governance principles in line with EU legislation. The IFC notes on its website that, on October 11, 2007, it signed a Memorandum of Understanding (MoU) with the LTA to establish an institute that will promote better corporate governance practices in Lebanon. The IFC also cooperates with Lebanon through its advisory project - the Lebanon Corporate Governance Project. Finally, according to the Middle East and North Africa Initiative (MENA) website, Lebanon is part of the MENA Initiative on Governance and Investment for Development, which promotes comprehensive reforms to improve corporate governance structures and operations. As stated in Saidi's 2004 report, cooperation and the harmonization of disclosure regimes, as well as accounting and auditing standards across the MENA region are crucial.

The Beirut Stock Exchange (BSE) was founded in 1983 under Legislative Decree No. 120. Lebanon is also the headquarters of the Arab Stock Exchange Union. According to the 2005 IIF report, the majority of companies in Lebanon are small and medium-sized enterprises (SMEs), and the equity market is highly concentrated, and "relatively underdeveloped compared to other countries in the region" (p. 2), with total market capitalization amounting to 15 percent of GDP, as opposed to 40 percent in the region. Further, the establishment of joint-stock corporations, limited liability, and offshore and holding companies are allowed under Lebanese law. A joint-stock corporation (Societe Anonyme Libanaise - SAL) is governed by Commercial Code. In the financial sector, most establishments, including banking and insurance, must take the form of a joint-stock company. Furthermore, as the 2009 U.S. Department of Commerce (DoC) Country Commercial Guide notes, most business sectors are dominated and run by commercially powerful families, with little transparency in their operations, thereby hampering the emergence of efficient capital markets.

According to the IIF's 2005 report, the agencies are professional but understaffed for the purpose of capital market regulation. The Ministry of Finance (MoF) carries out enforcement through normal investigative and judicial processes. The BSE is an independent authority with the power to suspend or de-list companies for non-compliance with the BSE Listing Rules and other laws. The MoF's 2006 report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. The 2009 U.S. DoC report adds that the law is now awaiting parliamentary approval.

In its 2009 Doing Business report, the World Bank perceives investor protection in Lebanon in 2008 as being slightly above the regional average but below the OECD mean. The Investor Protection Index is a subcomponent of the World Bank's 2009 Doing Business Indicators, and consists of three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index) and shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index). The indices range between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection. Lebanon scores 9.0 in the Disclosure Index, against a regional average of 5.9 and an OECD average of 5.9. It scores 1.0 in the Director Liability Index, against a regional average of 4.8 and an OECD average of 5.0. It scores 5.0 in the Shareholder Suits Index, against a regional average of 3.7 and an

OECD average of 6.6.

Further information on compliance with the principles of this standard is provided below.

## **Principle I: Ensuring the Basis for an Effective Corporate Governance Framework**

### **Level of Compliance: Insufficient Information**

There is insufficient information publicly available directly addressing this principle, however, according to a 2005 IIF report, the Lebanese government has given high priority to improving its legal and institutional framework for corporate governance, notably by improving disclosure of information, adopting IFRS, and requiring disclosure of ownership stakes in companies. Despite these efforts, important gaps remain in the regulatory and institutional environment, and the judiciary system still lacks independence. Furthermore, minority shareholders' rights are not adequately protected and responsibilities of the Board are not well defined. Hence, the IIF EAG, which acts as the Corporate Governance Task Force for Lebanon, recommended applying the guidelines of the 2002 IIF Code, and preparing a corporate governance code on a mandatory or "comply-or-explain" basis. It further advised creating an independent securities supervisory authority to ensure effective enforcement. Following the 2005 IIF assessment, the LTA adopted a Lebanese Code of Corporate Governance in 2006, which should address some of the shortcomings mentioned above. According to Kaufmann et al. in their 2007 working paper for the World Bank on governance indicators, Lebanon has shown an improvement in its Regulatory Quality indicator between 2005 and 2006, but suffered a decline in the rating on Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Rule of Law, and Control of Corruption indicators.

According to the IIF's 2005 report, the agencies are professional but understaffed for the purpose of capital market regulation. The MoF carries out enforcement through normal investigative and judicial processes. The BSE is an independent authority with the power to suspend or de-list companies for non-compliance with the BSE Listing Rules and other laws. The MoF's 2006 report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. The 2009 U.S. DoC report adds that the law is now awaiting parliamentary approval.

## **Principle II: The Rights of Shareholders and Key Ownership Function**

### **Level of Compliance: Insufficient Information**

Per the 2004 Saidi report, the LCTF aims to "maximize the rights and equitable treatment of shareholders through a legal and regulatory framework by creating enforcement mechanisms to rectify violations" (p. 96) as part of its Action Plan. According to a 2005 IIF report, minority shareholders' rights are not adequately protected and responsibilities of the Board are not well defined. However, according to a 2005 CIPE report, the Legal and Regulatory Subcommittee of the LCTF has been working on amendments to the Code of Commerce in order to strengthen minority and foreign shareholder rights and comply with the International Accounting Standards (IAS) and the International Standards on Auditing (ISA).

## **Principle III: The Equitable Treatment of Shareholders**

### **Level of Compliance: Insufficient Information**

According to the 2004 Saidi report, the LCTF aims to "maximize the rights and equitable treatment of shareholders through a legal and regulatory framework by creating enforcement mechanisms to rectify violations" (p. 96) as part of its Action Plan. According to the 2005 IIF report, minority shareholders rights are not adequately addressed in the securities regulation. Hence, the EAG recommended raising the voting threshold and providing minority shareholders with "the right to sell stock at appraised value in the event of a merger or takeover" (p. 8).

## **Principle IV: The Role of Stakeholders in Corporate Governance**

### **Level of Compliance: Insufficient Information**

The Saidi report notes that the LCTF aims to "engage various stakeholders, such as company employees, trade unions, creditors, suppliers, consumers, and the public-at-large, when instituting corporate governance" (p. 96) as part of its Action Plan.

## **Principle V: Disclosure and Transparency**

### **Level of Compliance: Insufficient Information**

As stated by Saidi in the 2004 report, the LCTF aims to "produce guidelines for disclosure and transparency" (p. 96) as part of its Action Plan. The LCTF further recommends disclosing financial and non-financial information, promoting transparency in compliance with the IAS, setting up a legal and regulatory framework to monitor the collaboration of listed companies, and enforcing auditing standards based on the ISA. As noted in a 2005 CIPE report, the Legal and Regulatory Subcommittee of the LCTF has been working on amendments to the Code of Commerce in order to strengthen minority and foreign shareholder rights and comply with the IAS and the ISA. According to the 2005 IIF report, Lebanon has made progress in improving disclosure of information, adopting IFRS, and requiring disclosure of ownership stakes in companies.

## **Principle VI: The Responsibilities of the Board**

### **Level of Compliance: Insufficient Information**

According to Saidi's 2004 report, the LCTF aims to "highlight the responsibilities of the board of directors" (p. 96) as part of its Action Plan. The LCTF further recommends maintaining a transparent corporate structure, board independence, and independent non-executive board members. In its 2005 report, the IIF also recommended ensuring that independent directors chair the audit and nomination committees and that training is provided to independent directors.

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Central Bank of Lebanon - Banque du Liban (CBL)  
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Lebanese Transparency Association (LTA)  
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## Standard : Effective Insolvency and Creditor Rights Systems

**Level of Compliance:** Insufficient Information

### Summary

Lebanon lacks any modern legislation specifically covering bankruptcy and insolvency. According to a 2007 report by the U.S. Department of Commerce, Lebanese court procedures are archaic, the courts may be interfered with, and there are too few judges. Insolvency related issues are dealt with under the Commercial Code and the Penal Code, according to a 2005 report by the Institut de la Mediterranee (Institute of the Mediterranean) of France and the Economic Research Forum of Egypt. The government of Lebanon considers it a priority to reform insolvency procedures, and in 2006, the Ministry of Finance reported that, with the support of the European Union, a new draft law which is "in line with the latest international guidelines" was awaiting final review and approval. However, no further information as to Lebanon's compliance with the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems developed by the World Bank is publicly available.

### General Overview

According to the 2005 Country Profile published by the French Institut de la Mediterranee (Institute of the Mediterranean) and Egypt's Economic Research Forum, Lebanon lacks any modern legislation specifically covering bankruptcy and insolvency. Insolvency issues are dealt with under Articles 459 through 668 of the Commercial Code and elements of the Penal Code. In a speech delivered at the launch of the Association of Directors and Business Owners - Code of Business Ethics in Beirut in April, 2004, Dr. Nasser Saidi announced that the Lebanese government planned to reform and modernize its laws on insolvency and bankruptcy. The work was being undertaken by the Lebanese Transparency Association's Task Force on Corporate Governance for Lebanon. This effort hoped to bring Lebanon's insolvency framework into alignment with internationally recognized standards. In 2006, the Ministry of Finance (MoF) stated in its "Key Fiscal, Debt, Monetary, Trade, and Market Reforms: 2006" report that this work, which received European Union funding, had resulted in a new draft law which aims to contribute to the development of an innovative and dynamic economy by providing an "appropriate and predictable legal framework". By allowing troubled firms to resolve their financial problems at an early stage, it is expected that fewer businesses would have to ultimately fail, while "enabling non-viable enterprises to exit smoothly without being hindered by the stigma of failure; in addition to providing bankrupts with the opportunity of a fresh restart" (p. 18). According to the MoF, the draft law, "is in line with the latest international guidelines" (p. 18). At the time of the report, it was awaiting final review and approval. The 2007 Country Commercial Guide (CCG) on Lebanon, published by the U.S. Department of Commerce, noted that Lebanese court procedures are archaic, there are insufficient judges, and the courts are subject to interference. The 2009 CCG adds that Lebanese law generally doesn't distinguish between foreign and domestic entities, except with regard to land ownership. It also notes that the Lebanese Center for Arbitration, which handles dispute settlement, was created in 1995 and is governed by statutes analogous to those of the International Chamber of Commerce in Paris. Lebanon is a member of the International Center for Settlement of Disputes and, in 2007, ratified the New York Convention of 1958.

According to the "Doing Business 2009" snapshot offered by the International Bank for Reconstruction and Development and the World Bank, Lebanon ranks 121st out of the 181 economies surveyed, worldwide. The report tracks three aspects of the business-closing process to identify problem areas in insolvency regimes. These include the

time it takes, on average, to complete the process, expressed in years; the average cost of the procedure, expressed as a percentage of the debtor estate; and the average recovery rate, expressed in cents on the dollar. The report also offers comparable figures for other member states in the region and for member states of the Organization for Economic Cooperation and Development (OECD). In Lebanon it takes an average of 4.0 years to complete a bankruptcy proceeding, whereas regionally the average is 3.5 years, and the average time required in OECD states is 1.7 years. It costs an average of 22% of the estate in Lebanon and 14.1% in the region, compared to an OECD average of 8.4%. The average recovery rate is 19.0 cents on the dollar in Lebanon, compared to a regional average of 29.9 cents on the dollar, and an average of 68.6 cents on the dollar in the OECD countries.

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## Standard : Core Principles for Effective Banking Supervision

Level of Compliance: **Intent Declared**

### Summary

In 1999, the International Monetary Fund (IMF) conducted a Financial Sector Assessment Program (FSAP) for Lebanon, wherein it assessed banking supervision in the country. An update was also conducted in 2001, although these reports were not published by the IMF. Nevertheless, a 2008 report published by the Commission of the European Communities mentions that Lebanon is implementing the recommendations of the IMF FSAP. A 2006 review of the regulatory framework governing the banking sector in Lebanon commissioned by the Association of Banks in Lebanon and the International Finance Corporation concludes that it is "suitable," with "acceptable" minimum requirements for banks and "sound" supervisory division of responsibility and interaction. The U.S. Department of Commerce (DoC), in its 2009 Country Commercial Guide, further indicates that Lebanon's banking sector is sound with high capital adequacy ratios, and a transparent regulatory framework in line with the Bank for International Settlements standards. Furthermore, a 2007 report by the U.S. Department of State (DoS) notes that the country is 'compliant' with 24 of the 25 Basel Core Principles (BCPs). However, this statement from the DoS has yet to be substantiated with a comprehensive assessment of the country's compliance with the BCPs. The DoC report refers to an unpublished self-assessment by the Banking Control Commission of Lebanon (BCCL) against the BCPs as well as an action plan to achieve full compliance with the principles during 2009. The report, as well as information provided on the BCCL website, also reveal the country's compliance with Pillars I and II of Basel II, and its plans to implement Pillar III by 2009.

### General Overview

In 2006, the Association of Banks in Lebanon (ABL) and the International Finance Corporation (IFC) commissioned Alem & Associates and tude Badri & Salim El Meouchi to survey and review the legal and regulatory framework of banking supervision in Lebanon as well as the corporate governance practices as applicable in this sector. The product was a comprehensive report (henceforth referred to as the ABL & IFC report) that, inter alia, provides a detailed description of banking sector regulation in Lebanon and benchmarks it to the Basel Core Principles (BCP) for Effective Banking Supervision developed by the Basel Committee on Banking Supervision (BCBS). Although the report does not assign specific levels of compliance to each BCP, or to the country as a whole, it does promote a deeper understanding of the regulatory regime governing banks in Lebanon. By way of observation, the report remarks that "the legal framework for banking supervision is suitable" (p. 73) and "provides for acceptable minimum standards that banks must meet" (p. 73). To add, the "division of authorities and the interaction between the authorities in charge of banking supervision in Lebanon are sound" (p. 73). The report, however, draws attention to two areas where improvements may be advisable. First, the existing regulation for transfer of ownership and changes in control imposes restrictions on banks that are problematic to implement, not the least since Law No. 520 allows banks to keep their custodial obligations confidential. Secondly, the autonomy of the banking supervisors could be strengthened by introducing the system of gradual rotation of the senior staff at the Banque du Liban (BDL, the central bank) and the Banking Control Commission of Lebanon (BCCL) through a legislative measure.

In its 2009 Article IV report, the International Monetary Fund (IMF) observes that banking sector regulation and supervision in Lebanon is prudent and effective. The 2009 Country Commercial Guide published by the U.S.

Department of Commerce (DoC) observes that "the banking regulatory system is transparent and consistent with international norms" and that "banks conform to Bank for International Settlements (BIS) standards." The BCCL, the bank supervisory authority in Lebanon, has also conducted a self-assessment of its compliance with the Basel Core Principles (BCP) for Effective Banking Supervision, as reported by the U.S. DoC's Guide, and "set up an action plan for compliance during 2009." The self-assessment, however, is not publicly available. Lebanon has charted out a plan to implement Basel II and has been working on it since 2004, as a timeline on the BCCL's website reveals. In this context, the U.S. DoC report confirms that, as of November 2008, Lebanon complied with Pillars I and II of Basel II, and that the country plans to implement Pillar III by 2009.

The U.S. Department of State's (DoS) 2009 International Narcotics Control Strategy Report mentions that Lebanon has adopted the 25 BCPs and is "compliant" with 24 of them. The pending BCP, which is on legal protection for supervisors, is currently being addressed. Furthermore, as noted in a 2005 report by the Institut de la Mediterranee & Economic Research Forum (IM & ERF), the BCCL has issued a number of regulations in line with the BCPs. However, there is no further information in this or other public sources to substantiate the level of compliance accorded to Lebanon by the U.S. DoS report. The International Monetary Fund (IMF) did conduct a Financial Sector Assessment Program (FSAP) of Lebanon in 1999, and in 2001 conducted an FSAP update, according to the Oesterreichische Nationalbank (OeNB) in a 2005 report. The reports, however, have not been published. A 2008 report by the Commission of the European Communities mentions that in 2007 "Lebanon continued the implementation of the recommendations of the IMF Financial Services Assessment Program (FSAP)" (p. 8).

As stated in the U.S DoC's 2009 Country Commercial Guide, the banking system is sound, with a high capital adequacy ratio, and the regulatory framework is "transparent and consistent with international norms." Furthermore, rules for loan classification and provisioning conform to the BCPs, and banks are required to adopt internal control policies and procedures in accordance with BCPs, as noted on the Association of Banks in Lebanon (ABL) website. However, the IMF's 2007 Article IV Consultation Concluding Statement on Lebanon discloses that new banking activities in the domestic and foreign markets will require a revision of the supervisory framework to mitigate risks. Furthermore, consolidation will be necessary in the medium term to enhance the responsibility of shareholders and the accountability of bank management.

The 2009 Article IV report by the IMF commends Lebanon for the progress made in strengthening the bank resolution framework through the implementation of the Bank Mergers' Law. It further gives high marks to the asset and funding structure of the banks and their high levels of capitalization and provisioning. In the view of the IMF, Lebanon has so far weathered the global financial crisis well and continues to maintain financial stability in 2008 along with "raising international reserves, and reducing public debt" (p. 4) as also achieving record economic growth. The IMF attributes these achievements not only to effective and prudent banking sector regulation and supervision but also to its own work in Lebanon under the Emergency Post-Conflict Assistance (EPCA) in 2007/08. The IMF qualifies its appreciation for the resilience of the Lebanese banking system by noting that certain risks may still impair financial stability, including "a larger-than-expected impact of the global recession and slowdown in the Gulf; more difficult-than-anticipated government financing; and political and security shocks, particularly in coincidence with the June elections" (p. 4). More specifically, banks could suffer due to lower than expected deposit growth, and decline in loan quality as a result of tightened global liquidity and the general downturn in the world economy. The IMF, therefore, advises Lebanon to continue tight vigilance of the banking sector.

The main laws governing the banking sector in Lebanon include the 1942 Code of Commerce, the 1956 Banking Secrecy Law, and the 1963 Code of Money and Credit (CMC). As stated in the 2007 U.S. DoS report, the government of Lebanon is in the process of approving a draft law on legal protection of bank supervisors. According to its website, the

BDL is an autonomous authority which regulates and grants licenses to all banks and financial institutions, and is responsible for safeguarding the soundness of the banking sector. The BCCL was formed as an administratively independent body in 1967 under Law No. 28 of 1967 to take over the responsibilities formerly discharged by the banking control department of the BDL. It supervises banks, financial institutions, brokerage firms, leasing companies, and money exchangers and monitors their financial soundness. The BCCL coordinates closely with the BDL while conducting its supervisory functions. The Higher Banking Commission (HBC), also established under Law No. 28 of 1967 within the BDL, acts as the judicial authority, and imposes administrative penalties on financial companies, as well as on auditors of these companies. According to a 2003 Committee on Payment and Settlement Systems report on payment systems in Lebanon, the HBC, BCCL, and BDL cooperate with each other to "ensure the stability and soundness of the financial and monetary sector" (p. 8). Further, as the 2006 ABL & IFC report mentions, the Special Investigation Commission (SIC) on Money Laundering is a separate legal entity to monitor banks' compliance with anti-money laundering rules and regulatory requirements and to investigate AML activities in the sector. An Association Agreement between the European Union (EU) and Lebanon was adopted in 2002, and entered into force on April 1, 2006 to promote the development of Lebanon.

Per information in the 2009 U.S. DoC report, Lebanese banks are highly capitalized with a capital adequacy ratio (CAR) of 12.3 percent, more than 4 percent the minimum required under Basel II. (The 2009 IMF report updates this information by citing June 2008 figures, and places the CAR at 11.8 percent.) Lebanon also complies with Pillars I and II of Basel II, as of November 2008, and plans to implement Pillar III by 2009. The banking sector, the report continues, shows a trend towards consolidation with numerous mergers seen over the decade and more anticipated in the wake of the newly revised Bank Mergers' Law. The five largest banks hold USD 66.6 billion in assets or more than two-thirds the total banking assets. Non-performing loans are about 14 percent of total loans; however, banks have adequate buffers against them, in the form of provisioning that has reached 80 percent and collateral, the U.S. DoC adds. Banks in Lebanon have high liquidity levels and lend primarily to the Lebanese government. They are prohibited from investing in structured products, although they have shown interest in financing the privatization plans of the government. The BCCL website adds that the entities under the BCCL's supervision include 63 banks, 40 financial companies, 9 brokerage firms, 3 leasing companies, and 389 money exchange houses.

Further information on compliance with the principles of this standard is provided below.

## **1. (1) Clear responsibilities and objectives for each supervisory agency.**

### **Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. Per the 2006 ABL & IFC report, there are four bodies performing banking supervision in the country: the BDL, the BCCL, the HBC, and the SIC. The BDL is an autonomous authority which regulates and grants licenses to all banks and financial institutions, as noted on its website, and is responsible for safeguarding the soundness of the banking sector. As the ABL & IFC report notes, the BDL has financial and decision making autonomy and is not subject to administrative and management rules that govern the public sector. Its mission, authority, and responsibility are also clearly laid out in the CMC. The BCCL was formed as an administratively independent body in 1967 under Law No. 28 of 1967 to take over the responsibilities formerly discharged by the banking control department of the BDL. It supervises banks, financial institutions, brokerage firms, leasing companies, and money exchangers and monitors their financial soundness. Per the ABL & IFC report, the BCCL has no financial autonomy vis--vis the BDL. However, it is operationally independent since its activities are not controlled by the BDL. The HBC, also established under Law No. 28 of 1967 within the BDL, acts as

the judicial authority, and imposes administrative penalties on financial companies, as well as on auditors of these companies. As the ABL & IFC report finds, the BCCL and the HBC have their mandates and responsibilities defined in Law No. 28 of 1967. According to a 2003 Committee on Payment and Settlement Systems report on payment systems in Lebanon, the HBC, BCCL, and BDL cooperate with each other to "ensure the stability and soundness of the financial and monetary sector" (p. 8).

### **1.(2) Operational independence and adequate resources.**

#### **Level of Compliance: Insufficient Information**

Per the 2006 ABL & IFC report, the BDL has financial and decision making autonomy and is not subject to administrative and management rules that govern the public sector. According to the BDL website, the BCCL performs its supervisory functions as an independent body with a separate budget, and coordinates its operations with the BDL to ensure that banks and financial institutions are implementing monetary and financial regulations. The BCCL also has access to all information available to the BDL regarding the financial structure and administrative status of all institutions of the banking sector. The BCCL website adds that the BCCL's budget is approved by the HBC and funded by the BDL. Further, its board members cannot be removed from office, except under circumstances of gross negligence of duty or physical incapacitation. The ABL & IFC report notes that the BCCL and the HBC have no financial autonomy vis--vis the BDL since they have no separate legal existence. However, they are operationally independent since their activities are not controlled by the BDL. The report recommends that a "legal obligation for rotation in the functions of [BCCL] member could be introduced in the context of a legislative reform" (p. 62) to ensure greater autonomy to the BCCL. The above information, however, is insufficient to address Lebanon's compliance with this principle.

### **1.(3) A suitable legal framework for authorization and ongoing supervision.**

#### **Level of Compliance: Insufficient Information**

There is insufficient information publicly available addressing Lebanon's compliance with this principle. As stated in the U.S. DoC's 2009 Country Commercial Guide, the regulatory framework in Lebanon is "transparent and consistent with international norms."

### **1.(4) A suitable legal framework to address compliance with laws as well as safety and soundness concerns.**

#### **Level of Compliance: Insufficient Information**

There is insufficient information publicly available addressing Lebanon's compliance with this principle. According to its website, the BDL is responsible for safeguarding the soundness of the banking sector. The BCCL website adds that the BCCL monitors the soundness of the banks and financial entities under its regulation. Per the ABL & IFC report, the BCCL is responsible for the periodic as well as continuing monitoring of compliance by banks with laws and regulations. It also monitors sound conduct of banking activities. The control powers of the BCCL are comprehensive, with all powers given to the BDL by the CMC vested in the former. The BCCL has the power to ask banks for all relevant information and may subject them to control activities without prior notice. It may intervene in the financial policies of banks, if required, to improve their financial performance. It can also ask the BDL for relevant information to conduct its control activities.

### **1.(5) Legal protection for supervisors.**

#### **Level of Compliance: Insufficient Information**

According to the 2007 U.S. DoS report, the government of Lebanon is in the process of approving a draft law that will ensure the legal protection of bank supervisors. Nevertheless, there is insufficient information publicly available

addressing Lebanon's compliance with this principle.

### **1.(6) Arrangement for sharing of information between supervisors and protection of confidentiality of shared information.**

**Level of Compliance:** Insufficient Information

According to the 2003 CPSS report on Payment Systems in Lebanon, the HBC, BCCL, and BDL cooperate with each other to "ensure the stability and soundness of the financial and monetary sector" (p. 8). Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

### **2. Clearly defined permissible activities for banks and control of the use of the word 'bank'.**

**Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. The CMC defines banks as "institutions whose main object is to use - for their own account - the funds they receive from the public in credit operations." This definition, per the 2006 ABL & IFC report, "may be considered unclear and incomplete" (p. 62).

### **3. Criteria for structure, directors, operating plan, controls, financial condition and capital base.**

**Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. Per the 2006 ABL & IFC report, banks require a specific license from the BDL for their establishment. The approval for the license is granted once the BDL has perused the adequacy of the documentation and capital produced by the entity, and is based on "an assessment of the ownership, financial, management and organizational structure of the bank" (p. 64). The minimum capital requirement - per the report - is ten billion Lebanese pounds as required by BDL Circular No. 79.

### **4. Authority to review and reject transfer of ownership.**

**Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. The 2009 U.S. DoC report does note, however, that banks are required to disclose information on their proprietorship as part of their regulatory approval process, and that the BDL must approve any transfer of ownership.

### **5. Authority to review major acquisitions and investments.**

**Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. The CMC and BDL Circular No. 57 lay restrictions on domestic or foreign investments or acquisitions by banks, per the 2006 ABL & IFC report.

### **6. Minimum capital adequacy requirements (meet Basle Capital Accord for internationally active banks).**

**Level of Compliance:** Insufficient Information

According to the 2007 U.S. DoC Country Commercial Guide, the banking sector in Lebanon was compliant with the Basel I Capital Accord, and that the BCCL and BDL had set up a committee to ensure compliance with Basel II recommendations by January 1, 2008. A timeline on the BCCL's website also reveals that Lebanon has charted out a plan to implement Basel II and has been working on it since 2004. In this context, the U.S. DoC report confirms that, as

of November 2008, Lebanon complied with Pillars I and II of Basel II, and that the country plans to implement Pillar III by 2009. Also, the capital adequacy ratios of banks reached 12.3 percent in June 2008, which is 4 percent more than the minimum set by Basel II. (The 2009 IMF report updates this information by citing June 2008 figures, and places the CAR at 11.8 percent.) The 2006 ABL & IFC report finds that the BDL is authorized by the CMC to set capital adequacy ratios for banks in order to maintain the safety and soundness of the banks. The various circulars of BDL and BCC have set the ratio at 12 percent, and have set other requirements for banks with regard to compulsory cash reserves on customer deposits in Lebanese pounds as well as in foreign currencies, higher value of assets as compared to liabilities, and transfer of annual net profits to a legal reserve. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **7. A method exists for the evaluation of procedures related to loans, investments and portfolio management.**

### **Level of Compliance:** Insufficient Information

As stated on the ABL website, rules for loan classification and provisioning are in conformity with the Basel Committee on Banking Supervision. Per the 2006 ABL & IFC report, the BCCL has issued circulars requiring banks to gather detailed information of the creditors before granting loans and to have the loans approved by a special committee set up from the boards of the banks. A BDL circular also requires banks to provide the BCCL with documents evidencing that the evaluation norms adopted by the BCBS have been applied. Further, the Directorate of Statistics and Economic Research at the BDL requires banks to submit quarterly the status of the risk evaluation of their loan portfolios. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **8. Policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.**

### **Level of Compliance:** Insufficient Information

See principle 7.

## **9. Prudential limits and management information system on concentration of exposure.**

### **Level of Compliance:** Insufficient Information

The BCCL has a Large Exposures & Settlements Department whose function is to monitor large exposures of banks, or loans that are more than USD 10 million. The department assists banks in taking corrective action if such borrowers default so as to minimize impact on the bank, as well as on the system as a whole. The ABL website adds that the maximum amount of shareholders' equity that banks can lend to an entity is 20 percent. Further, per the 2006 ABL & IFC report, BDL Circular No. 48 put additional restrictions vis--vis loan concentration, define correlated debtors, and allows the BCCL to deem a group of debtors connected if the bank fails to produce evidence that their risks are not correlated. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **10. Arm's length rule and monitoring for connected lending.**

### **Level of Compliance:** Insufficient Information

As stated on the ABL website, lending to related parties needs to be secured, and cannot exceed 25 percent of shareholders' equity. The 2006 ABL & IFC report also notes that the BDL has issued Circular No. 81 that stipulates the arm's length rule. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## 11. Policies and procedures for country risk and transfer risk.

### Level of Compliance: Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. Per the 2006 ABL & IFC report, the Lebanese banking sector has policies and procedures in place for the management of country and transfer risks, as well as credit risk, market risk and other risks. As for other risks, BDL Circular No. 50 requires banks to set aside an "unidentified banking risks reserve" (p. 68).

## 12. Measuring and monitoring market risk. Limit and/or specific capital charge on market risk exposure.

### Level of Compliance: Insufficient Information

According to a 2004 IMF report on Interim Staff Visit to Lebanon, the BCCL, in coordination with the BDL, has taken a "proactive stance in monitoring and mitigating risks in the banking sector" (p. 15) by issuing new regulations. Per the 2006 ABL & IFC report, the Lebanese banking sector has policies and procedures in place for the management of country and transfer risks, as well as credit risk, market risk and other risks. As for other risks, BDL Circular No. 50 requires banks to set aside an "unidentified banking risks reserve" (p. 68). The BCCL has also been upgrading its financial risk monitoring capacity. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## 13. Comprehensive risk management processes.

### Level of Compliance: Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. According to the Article IV Consultation Concluding Statement published by the IMF in 2007, new banking activities in the domestic and foreign markets will require a revision of the supervisory framework to mitigate risks. Furthermore, as noted in the 2004 IMF Report on Interim Staff Visit in Lebanon, the BCCL and the BDL have taken a "proactive stance in monitoring and mitigating risks in the banking sector" (p. 15) by issuing new regulations. The BCCL has also been upgrading its financial risk monitoring capacity.

## 14. Adequate internal controls.

### Level of Compliance: Insufficient Information

As stated in the 2006 ABL & IFC report, banks are required to adopt internal control policies and procedures in accordance with the BCBS' Framework for Evaluation of Internal Control Systems. This has been decreed by BDL Circular No. 77. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## 15. Strict "know-your-customer" rules and high ethical and professional standards.

### Level of Compliance: Insufficient Information

According to the 2007 U.S. DoS report, the 2001 Law on Fighting Money Laundering criminalizes money laundering. In 2002, following the enactment of the Anti-Money Laundering (AML) Law, Lebanon was removed from the Financial Action Task Force (FATF). Non-Cooperative Countries and Territories list. With respect to the Bank Secrecy Law, which could be used as a means to conduct illegal operations, the ABL set a Due Diligence Convention which was signed by the member banks, and issued new due diligence measures for banks to prevent money laundering operations, as stated on the BDL website. The DoS report adds that although Lebanon has improved its AML and combating the

financing of terrorism (CFT) framework, it still lacks effective prosecutions and convictions. Nonetheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle. In its 2009 report, the U.S. DoS report notes that the Lebanese Parliament approved Law No. 32 in October 2008, which expanded the scope and authority of investigators to include funds originating from corruption activities into money laundering cases.

## **16. Effective supervisory system consisting of on-site and off-site supervision.**

### **Level of Compliance:** Insufficient Information

According to the BDL website, the BCCL conducts both on-site and off-site supervision to identify and address problems in the banking sector. The 2006 ABL & IFC report notes that CMC Law No. 28 of 1967 and various BDL and BCCL circulars allow the BDL and the BCCL to conduct on-site and off-site supervision of banks in Lebanon. All such examinations conducted by the bank examiners or external auditors employed by them are subject to the banking secrecy laws. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **17. Regular contact with bank management and understanding of bank's operations.**

### **Level of Compliance:** Insufficient Information

As stated on the BDL website, the BCCL holds regular meetings with banks' management. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **18. Analytical reports and statistical returns on solo and consolidated basis.**

### **Level of Compliance:** Insufficient Information

According to a 2003 World Bank ROSC on Accounting and Auditing, banks are required to prepare consolidated financial statements and regulatory reports in accordance with the reporting requirements set by the BCCL. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **19. Independent validation of supervisory information through on-site examination or external auditors.**

### **Level of Compliance:** Insufficient Information

The 2009 IMF report mentions the implementation of some supervisory measures by the BDL in January 2008, which includes the adoption of formal policies with regard to the selection, appointment, and rotation of the BDL's external auditors. However, there is no further information publicly available addressing Lebanon's compliance with this principle.

## **20. Ability to supervise on a consolidated basis.**

### **Level of Compliance:** Insufficient Information

The 2006 ABL & IFC report observes that as part of their commitment to exercise consolidated supervision, the BDL and the BCCL require banking entities to maintain and to periodically submit to them consolidated financial statements with their banking as well as non-banking affiliates, be they domestic or foreign. Further, banks are required by the CMC to "keep separate accounts for the entirety of their transactions in Lebanon" (p. 72). Further, they must maintain capital ratios, credit exposures, related party transactions in the prescribed limit on a consolidated basis. All other banking ratios may be computed on an individual basis. The 2007 IMF Article IV Consultation report, however, comments that consolidation will be necessary in the medium term in the banking sector to enhance the responsibility of shareholders, and accountability of banks' management. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **21. Consistent accounting policies and practices that provide a true and fair view of the financial condition of the bank.**

### **Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle. According to the ABL website, accounting standards in Lebanon are in conformity with international standards. The 2006 ABL & IFC report adds that "the Lebanese ministry of finance has confirmed the legal requirement for application of both IAS [International Accounting Standards]/IFRSs [International Financial Reporting Standards] and ISA [International Standards on Auditing]" (p. 72). Further, banks are required to keep separate accounts for all their transactions in Lebanon, and to maintain and submit to the BCCL and the BDL consolidated financial statements on a periodic basis.

## **22. Adequate supervisory measures to ensure timely corrective action.**

### **Level of Compliance:** Insufficient Information

As stated on the BCCL website, the BCCL can impose corrective and remedial measures on supervised institutions when deemed necessary. Further, the HBC, as the BDL website states, can impose administrative penalties on entities violating the banking laws, their own bylaws, measures imposed by the BDL, or who submit incomplete or false financial reports or other information. Penalties may also be imposed on the auditors of such firms. All decisions of the HBC are final and irrevocable, the BDL website adds. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **23. Banking supervisors must practice global consolidated supervision over their internationally-active banking organizations.**

### **Level of Compliance:** Insufficient Information

See Principle 20.

## **24. International exchange of information with other supervisors.**

### **Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle.

## **25. Supervision of local operation of foreign banks and information sharing with home country supervisors.**

### **Level of Compliance:** Insufficient Information

There is insufficient information publicly available addressing Lebanon's compliance with this principle.

## ANNEX

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## Relevant Organizations

Association of Banks in Lebanon (ABL)

<http://www.abl.org.lb>

Banking Control Commission of Lebanon (BCCL)

<http://www.bccl.gov.lb/>

Central Bank of Lebanon - Banque du Liban (BDL)

<http://www.bdl.gov.lb>

Higher Banking Commission (HBC)

<http://www.bdl.gov.lb/bdl/HBC.htm>

Special Investigation Commission (SIC)

<http://www.sic.gov.lb/>

## Relevant Legislation/Regulation

Code of Money and Credit No. 13513, 1963 (in Arabic only)

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Law on Banking Control Commission of Lebanon No. 28, 1967

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Law on Fighting Money Laundering No. 318, 2001

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Bank Mergers' Law

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## Standard : Core Principles for Systemically Important Payment Systems

Level of Compliance: Insufficient Information

### Summary

The 2006 and 2009 Article IV Consultation reports by the International Monetary Fund (IMF) both mention that the IMF has been providing technical assistance to Lebanon since 2004 in the area of payment systems. The IMF has assessed the payment systems in Lebanon as to their compliance with the Core Principles for Systemically Important Payments Systems (CPSIPS) promulgated by the Committee on Payment and Settlement Systems (CPSS). However, there no information publicly available regarding the results of this assessment, or as to which is the systemically important payment system in Lebanon. The 2009 IMF report also states that "progress in implementing IMF recommendations has been limited." A real time gross settlement (RTGS) system is not available in Lebanon, and large-value funds transfers are mainly processed by check clearinghouse and other systems, notes a 2008 World Bank report on payment systems worldwide. According to the Central Bank of Lebanon (BDL) website, the central bank owns and operates the payment and settlement system in Lebanon, and it is also responsible for the safety and soundness of the system. Further, Law No. 133/99 of 1999 expands the role and responsibilities of the BDL, granting it greater powers for developing and regulating payment systems. A 2003 report by the CPSS mentions the BDL's 2002 approval of a plan to launch the Secure Electronic Banking and Information for Lebanon (SeBIL), which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. The BDL website states that the central bank has taken a number of steps to develop a secure and reliable RTGS system, such as employing a specialized international company to prepare a feasibility study on the implementation of a RTGS system aligned with the CPSIPS.

### General Overview

The 2006 and 2009 Article IV Consultation reports by the International Monetary Fund (IMF) both mention that the IMF has been providing technical assistance to Lebanon in the area of payment systems since 2004. In the course of this work, the IMF offered recommendations to improve the efficiency as well as liquidity management of the systems. The IMF also assessed the systems as to their compliance with the Core Principles for Systemically Important Payments Systems (CPSIPS). However, there no information publicly available regarding the results of this assessment, or as to which is the systemically important payment system in Lebanon. A 2008 World Bank publication on payment systems worldwide indicates that reforms are going on in Lebanon's national payment system. However, the 2009 IMF report states that "progress in implementing IMF recommendations has been limited" (Annex I, p. 3).

There is no real time gross settlement (RTGS) system in Lebanon, and large-value funds transfers are mainly processed by check clearinghouse and other systems, notes the 2008 World Bank report in its appendix. The central bank of Lebanon (BDL) owns and operates major clearing and settlement systems in the country, and carries out the final settlement of payment obligations for participants in the banking and financial systems over their central bank accounts, according to BDL's website. Specifically, "the transfers are processed on a gross basis, mainly in batches during the day, with final settlement at the end of the day. If there are no sufficient funds, the instruction will not be executed and the BDL notifies the payer, who either cancels or covers the instruction." As mentioned in the 2003 CPSS report, Midclear, the Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East, is Lebanon's clearinghouse and the central depository and central registrar for banks' shares. Apart from effecting the

clearing and settlement of funds and securities transactions in the country, the Midclear, which is owned by the BDL, also acts as the custodian of financial instruments, and "proxy for companies issuing new shares in the market" (p.3).

The 2003 Committee on Payment and Settlement Systems (CPSS) report "Payment Systems in Lebanon" informs that the BDL was established by Decree No. 13513 of 1963, which promulgated the Money and Credit Code of 1963, and started operations in April 1964. One of the key functions of the BDL is the provision of banking and settlement services. According to the Central Bank of Lebanon website, the BDL owns and operates the payment and settlement systems in Lebanon, and is also responsible for the safety and soundness of the systems. The BDL website further discloses that BDL's role was modified by Law No. 133/99 of 1999 to "extend the prerogatives, duties and responsibilities" of the Bank. The Law provides for "(1) developing and regulating payment systems, especially with regard to ATMs and payment cards; (2) developing and regulating transfer payments, including electronic transfers; and (3) developing and regulating clearing and settlement operations related to payment systems and financial instruments."

According to the 2008 World Bank report, legal provisions in Lebanon cover the following specific issues: (1) enforceability of security interests provided under collateral arrangements and of any relevant repo agreements, and (2) protection from third-party claims of securities and other collateral pledged in a payment system (p. 6). However, the provisions do not cover other important issues such as: (1) clarity of timing of final settlement especially when there is an insolvency, (2) legal recognition of (bilateral and multilateral) netting arrangements, (3) recognition of electronic processing of payments, (4) non-existence of any zero hour or similar rules. The report notes that there are reforms going on in the national payment systems, which are aimed to reduce systemic risk, enhance the overall efficiency of the payment system, and provide better payment and settlement services for the market.

The BDL formed the Commission for Developing and Modernizing Financial and Banking Laws in 2001 to update existing laws and regulations; a Committee on Modern Banking and Financial Techniques and Information Technology (COBIT) was created by the BDL to set out plans to include advanced electronic techniques in the payment systems of Lebanon. Other major public and private sector bodies associated with payment systems in Lebanon are the Higher Banking Commission (HBC), the Banking Control Commission (BCC), the Association of Banks in Lebanon (ABL), the National Deposit Guarantee Institution (NDGI), and Kafalat Corporation (KC).

The 2003 CPSS report also mentions the BDL's 2002 approval of a plan to launch the Secure Electronic Banking and Information for Lebanon (SeBIL), which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. In this context, the BDL website reports that the central bank has issued related circulars to banks and financial institutions, and taken a number of steps to develop a secure and reliable RTGS system, such as employing a specialized international company to prepare a feasibility study on the implementation of a secure RTGS system aligned with the CPSIPS. According to the 2009 U.S. Department of Commerce report on "Doing Business in Lebanon," cash is the most commonly used means of payment, and check and credit card payment are also almost universal. Bank automated teller machines (ATM) are widespread and give out cash in Lebanese pounds or U.S. dollars.

Further information on compliance with the principles of this standard is provided below.

## **I. The system should have a well-founded legal basis under all relevant jurisdictions.**

**Level of Compliance: Insufficient Information**

There is insufficient information publicly available addressing the compliance of Lebanon with this principle. According to the BDL website, Law No. 133/99 of 1999 expands the role and responsibilities of the central bank, granting it powers for "(1) developing and regulating payment systems, especially with regard to ATMs and payment cards; (2) developing and regulating transfer payments, including electronic transfers; and (3) developing and regulating clearing and settlement operations related to payment systems and financial instruments." Further, Basic Decision No. 7548 issued by the BDL in 2000 lays down the rules pertaining to transparency, integrity and security in electronic banking and financial operations of banks and other financial institutions in Lebanon supervised by the BDL. The BDL, in cooperation with the BCC, the ABL, and other public and private institutions, also formed the Commission for Developing and Modernizing Financial and Banking Laws, pursuant to Internal Circular No. 1612 in 2001 to update existing laws relating to payment systems in Lebanon. In addition, the BDL formed a Committee on Modern Banking and Financial Techniques and Information Technology (COBIT), also in collaboration with the BCC and the ABL, to lay out a comprehensive strategic plan for modernizing the payment and settlement systems with the use of electronic means, and especially the technique of the SWIFT network in Lebanon.

The 2003 CPSS report on Payment Systems in Lebanon further observes that the Commercial Code of 1943 forms a primary part of the legal framework for commercial activities in Lebanon and contains the fundamental principles governing the use of bills of exchange and checks. The CPSS report also enumerates some other legal and regulatory instruments and developments relevant to payment and settlements in Lebanon. They are: (1) Law No. 138 of 1999, creating the Arab Clearing House (ACH) for stock settlements in Arab markets; (2) Law No. 139 of 1999, creating the Midclear within the BDL as the central depository, custodian, and clearing house for financial instruments for Lebanon and the Middle East; (3) Law No. 159 of 1999, introducing a book entry system for securities and movable assets in bearer form; (4) the BDL's Amendment of Basic Decision No. 7299 of 1999, creating one standard payment card accepted by all ATMs, which would clear domestically without using international networks; and (5) the BDL's Basic Decision No. 7548 of 2000, introducing measures to monitor electronically conducted financial and banking transactions.

A 2008 World Bank publication on payment systems worldwide indicates in its appendix that legal provisions in Lebanon cover the following specific issues: (1) enforceability of security interests provided under collateral arrangements and of any relevant repo agreements, and (2) protection from third-party claims of securities and other collateral pledged in a payment system (p. 6). However, the provisions do not cover other important issues such as: (1) clarity of timing of final settlement especially when there is an insolvency, (2) legal recognition of (bilateral and multilateral) netting arrangements, (3) recognition of electronic processing of payments, (4) non-existence of any zero hour or similar rules. The report notes that there are reforms going on in the national payment systems, such as, improving the country's legal and regulatory framework, large-value funds transfer systems, retail payment systems, and securities settlement systems. The reforms are aimed to reduce systemic risk, enhance the overall efficiency of the payment system, and provide better payment and settlement services for the market.

## **II. The system's rules and procedures should enable participants to have a clear understanding of the systems impact on each of the financial risks they incur through participation in it.**

**Level of Compliance: Insufficient Information**

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

### **III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.**

#### **Level of Compliance:** Insufficient Information

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

The central bank of Lebanon owns and operates major clearing and settlement systems in the country, and carries out the final settlement of payment obligations for participants in the banking and financial systems over their central bank accounts, according to BDL's website. Specifically, "the transfers are processed on a gross basis, mainly in batches during the day, with final settlement at the end of the day. If there are no sufficient funds, the instruction will not be executed and the BDL notifies the payor, who either cancels or covers the instruction."

### **IV. The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day. (Systems should seek to exceed the minima included in this Core Principle.)**

#### **Level of Compliance:** Insufficient Information

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. This system, according to the report, will enable banks to transfer and settle large-value payments electronically and in real time. In anticipation of the SeBIL going live, the Midclear clears and settles payment transactions in Lebanon on a net basis, with end of the day settlement. Fund accounts are maintained at the BDL, and the provisional balance of the debit and credit to each account is continually calculated, to be finally settled at the end of the day, if the accounts show adequate funds for the transaction to go through. At this instance all settlements are final and irrevocable. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

The central bank of Lebanon owns and operates major clearing and settlement systems in the country, and carries out the final settlement of payment obligations for participants in the banking and financial systems over their central bank accounts, according to BDL's website. Specifically, "the transfers are processed on a gross basis, mainly in batches during the day, with final settlement at the end of the day. If there are no sufficient funds, the instruction will not be executed and the BDL notifies the payor, who either cancels or covers the instruction."

### **V. A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation. (Systems should seek to exceed the minima included in this Core Principle.)**

#### **Level of Compliance:** Insufficient Information

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. In anticipation of the SeBIL going live, the Midclear clears and settles payment transactions in Lebanon on a net basis, with end of the day settlement. In case the Midclear members are unable to cover all their transactions, Midclear "selectively removes the failing member's individual transaction(s) until the resulting net debit can be covered by the balance on the member's account," (p. 26)

and then retries to settle the transaction for one business day by allowing the member to make up for the deficiency in funds. If that recourse fails, the incident is referred to the BDL which then, in accordance with established procedures, withdraws the funds from the collateral kept in reserve by the member at the BDL as part of its membership agreement. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

## **VI. Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.**

### **Level of Compliance: Insufficient Information**

There is insufficient information publicly available addressing the actual compliance of Lebanon with this principle. A 2008 World Bank publication on payment systems worldwide indicates in its appendix that high quality collateral is required for settlement in payment systems in Lebanon.. The BDL website states that all domestic interbank payment transactions of account holders at the BDL are finally settled at the BDL, which is also the ultimate source of liquid funds to the payment systems. International transfers not settled by the BDL are executed through the proprietary networks of the participating banks. Further, payments are settled on the basis of accounts maintained by the participating banks at the BDL. This role of the BDL has the statutory backing of Basic Decision No. 6367 of 1996 issued by the BDL in relation to transfer services. Transfers are processed on a gross basis, with end of the day final settlement; mostly through SWIFT. The 2003 CPSS report notes that under the membership agreement between banks and other financial institutions and the BDL, the members are required to maintain a separate sub account with the BDL as collateral for future transactions. The balance of these accounts is constantly transmitted to Midclear by the BDL, which settles the accounts accordingly. The 2003 CPSS report also mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS.

## **VII. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.**

### **Level of Compliance: Insufficient Information**

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. In this context, the BDL website reports that the central bank has issued related circulars to banks and financial institutions, and taken a number of steps to develop a secure and reliable RTGS system, such as employing a specialized international company which prepared a feasibility study regarding the implementation of a secure RTGS system aligned with the CPSIPS. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

A 2008 World Bank publication on payment systems worldwide indicates in its appendix that in Lebanon routine procedures are in place for periodical data back-ups. Data storage media is kept in sites other than the main processing site and a fully equipped alternate processing site exists. The report also notes that the BDL has documented a formal business continuity plan that includes procedures for information dissemination and for crisis management (p. 75).

## **VIII. The system should provide a means of making payments which is practical for its users and efficient for the economy.**

### **Level of Compliance: Insufficient Information**

According to the appendix of a 2008 World Bank publication on payment systems worldwide, pricing and charges of Lebanon's large value payment systems are designed to partially recover the operational costs (p. 43).The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. The BDL website adds that the BDL formed COBIT in

collaboration with the BCC and the ABL to lay out a comprehensive strategic plan for modernizing the payment and settlement systems with the use of electronic means, and especially the technique of the SWIFT network in Lebanon. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

## **IX. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.**

### **Level of Compliance: Insufficient Information**

According to the appendix of a 2008 World Bank publication on payment systems worldwide, there is an explicit access/exclusion policy for payment systems in Lebanon; access is granted on the basis of institutional standing and the fulfillment of a set of objective criteria; and formal rules exist to allow operator to exclude a participant timely. The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. The BDL website states that all banks, whether they are domestic or foreign, as well as the BDL, must be members of the Midclear and hold accounts with the BDL. Further, as per Basic Decision No. 6911 of 1998, the cost of participating varies and must be borne by the member banks. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

## **X. The system's governance arrangements should be effective, accountable and transparent.**

### **Level of Compliance: Insufficient Information**

The 2003 CPSS report mentions the BDL's 2002 approval of a plan to launch the SeBIL, which would lay the foundation for Lebanon's RTGS system, to be developed in compliance with the CPSIPS. However, there is insufficient information publicly available regarding Lebanon's compliance with this principle.

## **A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.**

### **Level of Compliance: Insufficient Information**

There is insufficient information publicly available as to Lebanon's compliance with this principle. According to the BDL website, Law No. 133/99 of 1999 expands the role and responsibilities of the BDL, granting it powers for "(1) developing and regulating payment systems, especially with regard to ATMs and payment cards; (2) developing and regulating transfer payments, including electronic transfers; and (3) developing and regulating clearing and settlement operations related to payment systems and financial instruments." Further, Basic Decision No. 7548 issued by the BDL in 2000 lays down the rules pertaining to transparency, integrity and security in electronic banking and financial operations for banks and other financial institutions in Lebanon supervised by the BDL. The BDL, in cooperation with the BCC, the ABL, and other public and private institutions, also formed the Commission for Developing and Modernizing Financial and Banking Laws, pursuant to Internal Circular No. 1612 in 2001 to update existing laws relating to payment systems in Lebanon. In addition, the BDL formed COBIT, also in collaboration with the BCC and the ABL, to lay out a comprehensive strategic plan for modernizing the payment and settlement systems with the use of electronic means, and especially the technique of the SWIFT network in Lebanon.

## **B. The central bank should ensure that the systems it operates comply with the Core Principles.**

### **Level of Compliance: Enacted**

A 2008 World Bank publication on payment systems worldwide indicates in its appendix that payment system oversight in Lebanon is performed by the central bank over central bank-operated systems only (p. 228).

**C. The central bank should oversee compliance with the Core Principles by systems it does not operate and it should have the ability to carry out this oversight.**

**Level of Compliance: No Compliance**

A 2008 World Bank publication on payment systems worldwide indicates in its appendix that payment system oversight in Lebanon is performed by the central bank over central bank-operated systems only (p. 228).

**D. The central bank, in promoting payment system safety and efficiency through the Core Principles, should cooperate with other central banks and with any other relevant domestic or foreign authorities.**

**Level of Compliance: Insufficient Information**

There is insufficient information publicly available as to Lebanon's compliance with this principle. A 2008 World Bank publication on payment systems worldwide indicates in its appendix that "although not formalized, the Central Bank holds regular meetings with stakeholders at senior levels to discuss strategic issues for the payment system," and that "the central bank consults almost exclusively with the bankers' association."

## ANNEX

### Sources of Assessment

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### Relevant Organizations

Association of Banks in Lebanon (ABL)

<http://www.abl.org.lb/ABL/home.asp>

Banking Control Commission (BCC)

<http://www.bdl.gov.lb>

Beirut Stock Exchange (BSE)

<http://www.bse.com.lb/>

Central Bank of Lebanon (Banque du Liban) (BDL)

<http://www.bdl.gov.lb>

Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East (Midclear)

<http://www.midclear.com.lb/>

Higher Banking Commission (HBC)

<http://www.bdl.gov.lb/bdl/HBC.htm>

National Deposit Guarantee Institution (NDGI)

<http://www.bdl.gov.lb/bfs/SB/ndgi.htm>

## Relevant Legislation/Regulation

Code of Commerce, Legislative Decree No. 304, 1942

<http://www.lebaneselaws.com/>

Law No. 133/99 on the Establishment of a Central Securities Depository, modifying Article 70 of the Code of Money and Credit, 1999 (in Arabic only)

<http://www.bdl.gov.lb/circ/lawpdf/Law139.pdf>

Law of Money and Credit No. 13513, 1963 (in Arabic only)

<http://www.bdl.gov.lb/circ/lawpdf/cmc.pdf>

Law on the Arab Clearing Corporation No. 138, 1999

Law on the Central Securities Depository No. 139, 1999

Law on Creation of Securities Account No. 159, 1999

Basic Decision on creating one standard payment card accepted by all ATMs No 7299, 1999

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[http://www.buyusa.gov/lebanon/en/investment\\_climate.html](http://www.buyusa.gov/lebanon/en/investment_climate.html)

## Standard : Objectives and Principles of Securities Regulation

Level of Compliance: **Intent Declared**

### Summary

The Institute of International Finance's 2005 report on corporate governance in Lebanon observes that the enforcement of capital market regulations is inhibited by an underdeveloped institutional framework, and especially the lack of an independent securities authority. The Ministry of Finance (MoF), the Central Bank of Lebanon, and the Banking Control Commission of Lebanon share the responsibility of regulating and supervising the securities market. In 2004, the MoF enlisted the assistance of the Financial Sector Reform and Strengthening (FIRST) Initiative to promote capital markets development in the country and to re-establish Beirut as a regional financial center. Per the FIRST Initiative recommendations, the government launched efforts to issue new stock exchange regulations as well as new laws to improve securities regulation. One significant effort has been to bring the Capital Market Draft Law, which has been pending for years, up for parliamentary approval, according to a 2009 report by the U.S. Department of Commerce. A 2008 MoF report indicates that the Capital Market Draft Law is a framework law to which provisions will be added as the capital market matures. The Law is expected to establish the Capital Markets Council, an independent regulatory authority with statutory powers to develop and regulate the capital markets. It was awaiting parliamentary approval as of late 2008. However, there is no update on the actual passage of the law.

### General Overview

The Institute of International Finance's (IIF's) 2005 report on corporate governance in Lebanon indicates that the enforcement of capital market regulations is inhibited by the underdeveloped institutional framework, and especially the lack of an independent securities authority. The Ministry of Finance (MoF) carries out enforcement through normal investigative and judicial processes. The Beirut Stock Exchange (BSE) is an independent authority with the power to suspend or de-list companies for non-compliance with the BSE Listing Rules and other laws. The agencies are professional but understaffed for the purposes of capital market regulation, notes the IIF report. Also, as the 2009 Country Commercial Guide published by the U.S. Department of Commerce adds, most business sectors are dominated and run by commercially powerful families, with little transparency in their operations, thereby hampering the emergence of efficient capital markets.

According to its website, the Central Bank of Lebanon (Banque du Liban, or BDL) is an autonomous authority which regulates and grants licenses to all financial institutions, banks, brokerage firms, money dealers, foreign banks, leasing companies and mutual investment schemes, and is responsible for safeguarding the soundness of the financial sector. It is also responsible for developing the money and financial markets and ensuring the proper conduct of securities clearing operations. The Banking Control Commission of Lebanon (BCCL) was formed as an administratively independent body in 1967 under Law No. 28 of 1967 to take over the responsibilities formerly discharged by the banking control department of the BDL. It supervises banks, financial institutions, brokerage firms, leasing companies, and money exchangers and monitors their financial soundness. The BCCL coordinates closely with the BDL while conducting its supervisory functions. The Higher Banking Commission (HBC), also established under Law No. 28 of 1967 within the BDL, acts as the judicial authority and imposes administrative penalties on financial companies, as well as on auditors of these companies. According to a 2003 Committee on Payment and Settlement Systems report on

payment systems in Lebanon, the HBC, BCCL, and BDL cooperate with each other to "ensure the stability and soundness of the financial and monetary sector" (p. 8). The BCCL website adds that the entities under the BCCL's supervision include 63 banks, 40 financial companies, 9 brokerage firms, 3 leasing companies, and 389 money exchange houses. However, Lebanon is not listed as a member on the International Organization of Securities Commissions (IOSCO) website.

The IIF's 2005 report conveys that the Lebanese government is involved in initiatives drafting stock exchange regulations. Lebanon's efforts to improve the regulation of the capital market are demonstrated by the Council of Ministers' approval of the Capital Market Draft Law on March 1, 2006, which had previously been pending for years. A 2008 MoF report adds that the numerous initiatives underway are intended to "to address the long-standing issue of underdeveloped capital markets as part of a broader strategy to modernize the non-bank financial sector and stimulate investment and growth" (p. 34). With reference to the Capital Market Draft Law, the MoF notes that it "has been structured as a framework law, under which the detailed provisions of regulation will be made as the capital markets in Lebanon develop and mature" (p. 35). Most importantly, the Law will establish the Capital Markets Council, an independent capital markets regulatory authority, and will empower it to issue detailed regulations to govern and develop the capital markets. The law, per information in this report as well as in the U.S. DoC's 2009 Country Commercial Guide, is now awaiting parliamentary approval. The MoF expected its enactment by the end of 2008. However, there are no updates as to the passage of the law as of May 2009.

Other notable initiatives to promote the modernization of the securities sector include the issuance of longer maturity instruments, including 5-year bonds and 3-year Treasury bills in order to enhance public debt management. Further, a Capital Market Advisory Committee, composed of leading investment bankers and investment experts, has been established to discuss and issue recommendations for further development of the markets. The Committee has thus far recommended, inter alia, longer trading hours at the BSE, remote trading and e-trading, and shorter trade settlement time. The MoF is also taking other steps to improve the BSE. It has recruited a consulting firm to strategize incentives to encourage new companies to list on the BSE. Further, remote trading has been allowed and e-trading promoted with the BSE creating a new website where listings and their market prices will be available in real time. Sovereign Eurobonds have been listed on the BSE since August 2004. Other laws have also been designed to improve regulation of financial markets, according to the MoF's 2008 report. The Securitization Law was enacted in 2005 and "permits institutions to securitize assets and allows them to originate loans that will not be held on their books following their securitization" (p. 34). Also, the Collective Investment Schemes Law of 2005 regulates the eligibility, legal form, and structure of Collective Investment Schemes (CISs) and requires the separation of clients' assets from those of the broker. The 2008 MoF report mentions a Financial Sector Reform and Strengthening (FIRST) Initiative project that was approved in 2004 to develop the capital markets in Lebanon. The report states that it reached completion in 2007 and that it "provided a development plan for the regulatory and supervisory" (p. 34) regime for the securities market in Lebanon. With the help of the project, the government wants to re-establish Beirut as a regional financial center. The recommendations of the FIRST Initiative team appear to have been instrumental in the modernization efforts of the Lebanese government from drafting the Capital Market Law to plans of establishing an independent regulatory authority for this sector.

In the view of the International Monetary Fund (IMF), as expressed in its 2009 Article IV report, Lebanon has so far weathered the global financial crisis well and continued to maintain financial stability in 2008, as well as achieving record economic growth. The IMF attributes these achievements to its own work in Lebanon under the Emergency Post-Conflict Assistance (EPCA) in 2007/08 as well as to "strict oversight on the financial sector" (p. 22). Also, the system steered clear of investing in high-risk structured products or those with a risky funding structure. The IMF qualifies its appreciation for the resilience of the Lebanese financial system by noting that certain risks may still impair financial stability, including "a larger-than-expected impact of the global recession and slowdown in the Gulf; more difficult-than-

anticipated government financing; and political and security shocks, particularly in coincidence with the June elections" (p. 4). The IMF, therefore, advises Lebanon to continue tight vigilance of the financial sector.

Per information on the FIRST Initiative website, the BSE was first created in 1920 but closed down in 1983. It re-opened in 1996, two years after the government initiated efforts with the setting up of a BSE Committee. According to its website, the BSE is governed by legislative decree No. 120 of 1983, and is supervised by the MoF. There are three BSE market segments. The official market has a capital requirement of USD 3 million, the junior market has a capital requirement of USD 1 million, and the unlisted, over-the-counter (OTC) market has a capital requirement of USD 100,000. Trading is accomplished through auction and continuous trading. Also, tradable stocks and papers may be listed on the BSE. The Arab Stock Exchange Union is also headquartered in Lebanon. The BSE website reports that Midclear S.A.L., the Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East, which is owned by the BDL, handles clearing and settlement operations.

Further information on compliance with the principles of this standard is provided below.

### **1. The responsibilities of the regulator should be clear and objectively stated.**

#### **Level of Compliance: Insufficient Information**

The IIF's 2005 report on corporate governance in Lebanon indicates that the enforcement of capital market regulations is inhibited by the underdeveloped institutional framework, and especially the lack of an independent securities authority. The MoF carries out enforcement through normal investigative and judicial processes. In addition, the BDL is responsible for licensing and the BCCL for supervising banks, brokerage firms, money dealers, foreign banks, leasing companies and mutual investment schemes, as indicated on their respective websites. However, the publicly available information does not directly address Lebanon's compliance with this principle.

### **2. The regulator should be operationally independent and accountable in the exercise of its functions and powers.**

#### **Level of Compliance: Insufficient Information**

The IIF's 2005 report states that the MoF and the BSE are operationally independent, but does not provide further information regarding Lebanon's compliance with this principle. According to the BDL website, the BCCL performs its supervisory functions as an independent body with a separate budget, and coordinates its operations with the BDL to ensure that banks and financial institutions are implementing monetary and financial regulations. The BCCL also has access to all information available to the BDL regarding the financial structure and administrative status of all institutions of the banking sector. Conversely, the Governor of the BDL is legally entitled to all reports of the BCCL. The BCCL website adds that the BCCL's budget is approved by the HBC and funded by the BDL. Further, its board members cannot be removed from office, except under circumstances of gross negligence of duty or physical incapacitation. Nevertheless, there is little information publicly available addressing Lebanon's compliance with this Principle.

### **3. The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.**

#### **Level of Compliance: Insufficient Information**

According to the IIF's 2005 report, the agencies are professional but understaffed for the purpose of capital market regulation. The MoF carries out enforcement through normal investigative and judicial processes. The BDL is

responsible for licensing and supervising banks, brokerage firms, money dealers, foreign banks, leasing companies and mutual investment schemes, as indicated on its website. The MoF's 2006 report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue detailed regulations to govern the capital market. According to the 2009 U.S. DoC report, the law is now awaiting parliamentary approval. However, the publicly available information does not directly address Lebanon's compliance with this principle.

#### **4. The regulator should adopt clear and consistent regulatory processes.**

**Level of Compliance:** Insufficient Information

See Principle 3.

#### **5. The staff of the regulator should observe the highest professional standards, including appropriate standards of confidentiality.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

#### **6. The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, to the extent appropriate to the size and complexity of the markets.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle. The BSE is a self-regulatory organization in Lebanon. Per information on its website, it is an independent authority with the power to suspend or de-list companies for non-compliance with the BSE Listing Rules and other laws. It is run through a Committee, which manages, regulates and develops the markets under the provisions of the law. It is also responsible for protecting the interests of the investors trading on the Exchange. Further, it monitors the activities of the listed companies to ensure equitable treatment of all issuers and traders, and to disseminate accurate information on them to the investing public. The Commission also has the power to advise the legislative authorities on amendments to relevant laws and regulations. As stipulated by the By-Laws of the BSE, the BSE may institute a disciplinary board to investigate and examine violations of the BSE by-laws as well as other securities sector laws by registered intermediaries or listed companies.

#### **7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

#### **8. The regulator should have comprehensive inspection, investigation and surveillance powers.**

**Level of Compliance:** Insufficient Information

According to the IIF's 2005 report, the MoF carries out enforcement through normal investigative and judicial processes. In addition, the BDL is responsible for licensing and the BCCL for supervising banks, brokerage firms, money dealers, foreign banks, leasing companies, and mutual investment schemes, as indicated on their respective website. However, the MoF's 2006 report indicates that the Council of Ministers approved the Capital Market Draft Law on March 1, 2006, which will establish the Capital Markets Council, a capital markets regulatory authority, and will empower it to issue

detailed regulations to govern the capital market. According to the 2009 U.S. DoC report, the law is now awaiting parliamentary approval. However, the publicly available information does not directly address Lebanon's compliance with this principle.

## **9. The regulator should have comprehensive enforcement powers.**

**Level of Compliance:** Insufficient Information

See principle 8.

## **10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

## **11. The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle. Moreover, Lebanon is not listed as a member on the IOSCO website.

## **12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.**

**Level of Compliance:** Insufficient Information

See Principle 11.

## **13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.**

**Level of Compliance:** Insufficient Information

See Principle 11.

## **14. There should be full, timely and accurate disclosure of financial results and other information that is material to investors decisions.**

**Level of Compliance:** Insufficient Information

As stated in Saidi's 2004 report, the Lebanese Corporate Governance Task Force (LCTF) aims to "produce guidelines for disclosure and transparency" (p. 96) as part of its Action Plan. The LCTF further recommends disclosing financial and nonfinancial information, promoting transparency in compliance with the International Accounting Standards (IASs), setting up a legal and regulatory framework to monitor the collaboration of listed companies, and enforcing auditing standards based on the International Auditing Standards (ISAs). As noted in a 2005 Center for International Private Enterprise (CIPE) report, the Legal and Regulatory Subcommittee of the LCTF has been working on amendments to the Code of Commerce in order to strengthen minority and foreign shareholder rights, and comply with the IASs and the ISAs. According to the 2005 IIF report, Lebanon has made progress in improving disclosure of information, adopting International Financial Reporting Standards (IFRSs), and requiring disclosure of ownership stakes in companies. However, the publicly available information does not directly address Lebanon's compliance with this principle.

## **15. Holders of securities in a company should be treated in a fair and equitable manner.**

### **Level of Compliance: Insufficient Information**

As noted by Saidi in 2004, the LCTF aims to "maximize the rights and equitable treatment of shareholders through a legal and regulatory framework by creating enforcement mechanisms to rectify violations" (p. 96) as part of its Action Plan. According to a 2005 CIPE report, the Legal and Regulatory Subcommittee of the LCTF has been working on amendments to the Code of Commerce in order to strengthen minority and foreign shareholder rights, and comply with the IASs and the ISAs. According to the 2005 IIF report, minority shareholders rights are not adequately addressed in the securities regulation. Hence, the IIF Equity Advisory Group recommended raising the voting threshold and providing minority shareholders with "the right to sell stock at appraised value in the event of a merger or takeover" (p. 8). However, the publicly available information does not directly address Lebanon's compliance with this principle.

## **16. Accounting and auditing standards should be of a high and internationally acceptable quality.**

### **Level of Compliance: Insufficient Information**

The 2003 World Bank ROSC reports that with the exception of banks and listed companies, compliance gaps existed in both accounting and auditing practices. According to Saidi in his 2004 paper, "the Lebanese private sector recognizes International Accounting and Auditing standards; however, no legal requirement or formal mechanism exists to monitor compliance" (p. 39). Furthermore, Saidi pointed out that no supervisory body had been established for monitoring reporting practices and ensuring consistency. The World Bank advised the Lebanese government to "amend or legislate laws dealing with accounting, auditing, corporate financial reporting, and the accountancy profession in the country" (p. 11). According to the 2007 self-assessment, the LACPA adopted the International Federation of Accountants (IFAC) Code as issued, without modifications. The LACPA is listed as a member on the IFAC website. However, the publicly available information does not directly address Lebanon's compliance with this principle.

## **17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.**

### **Level of Compliance: Insufficient Information**

The BDL is responsible for licensing and the BCCL for supervising mutual investment schemes, as indicated on their respective websites. Also, the Collective Investment Schemes Law of 2005 regulates the eligibility, legal form, and structure of Collective Investment Schemes (CISs) and requires the separation of clients' assets from those of the broker. However, the publicly available information does not directly address Lebanon's compliance with this principle.

## **18. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.**

### **Level of Compliance: Insufficient Information**

See Principle 17.

## **19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investors interest in the scheme.**

### **Level of Compliance: Insufficient Information**

See Principle 17.

**20. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.**

**Level of Compliance:** Insufficient Information

See Principle 17.

**21. Regulation should provide for minimum entry standards for market intermediaries.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**24. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**26. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**27. Regulation should promote transparency of trading.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**28. Regulation should be designed to detect and deter manipulation and other unfair trading practices.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle. However, the 2008 MoF report mentions that a draft Insider Trading bill is pending parliamentary approval since 2005.

**29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information addressing Lebanon's compliance with this principle.

**30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.**

**Level of Compliance:** Insufficient Information

According to its website, the Financial Markets Department of the BDL is responsible for developing and ensuring the proper conduct of securities clearing operations. The BSE reveals on its website that Midclear S.A.L., which is owned by the BDL, handles clearing and settlement of securities transacted on the BSE. The cash leg of the transaction is settled at the BDL, where all authorized brokers operating on the BSE are required to have an active account solely for settlement purposes. Further, as the 2008 MoF report mentions, a draft law on Dematerialization of Securities is pending parliamentary approval since 2002. Per the report, "aims at ensuring an ownership and trading system for securities, which combines rapidity and security by opening accounts at the central depository MIDCLEAR" (p. 35). This information does not, however, address Lebanon's compliance with this principle.

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### Relevant Organizations

Banking Control Commission of Lebanon (BCCL)

<http://www.bccl.gov.lb/>

Beirut Stock Exchange (BSE)

<http://www.bse.com.lb/>

Central Bank of Lebanon - Banque du Liban (BDL)

<http://www.bdl.gov.lb>

Higher Banking Commission (HBC)

<http://www.bdl.gov.lb/bdl/HBC.htm>

Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East (Midclear)

[www.midclear.com.lb](http://www.midclear.com.lb)

Ministry of Finance (MoF)

<http://www.finance.gov.lb>

### Relevant Legislation/Regulation

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## Standard : Insurance Core Principles

Level of Compliance: **Intent Declared**

### Summary

In their joint (and unpublished) 1999 Financial Sector Assessment Program (FSAP), the World Bank and the International Monetary Fund concluded that the insurance sector in Lebanon was characterized by inadequate regulation and supervision (as mentioned in a 2006 Financial Sector Reform and Strengthening (FIRST) Initiative report). A 2005 Institut de la Mediterranee & Economic Research Forum (IM & ERF) report also observed that the insurance industry in Lebanon demonstrates inadequate transparency and disclosure, as well as financial and risk reporting. In 2003, the FIRST Initiative, as noted in its 2006 report, launched a "Review and Drafting of a New Insurance Law" project for Lebanon, which was completed in April 2006. The aim of the project was to strengthen the insurance sector in Lebanon through improved regulation and supervision and to assist Lebanon in drafting a new Insurance Law and related regulations incorporating the 2003 Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS). As a result of the project's implementation, a new Insurance Law was drafted. Regulations related to the law were also prepared but only to a limited extent due to considerable re-drafting issues. The new draft law was expected to address weaknesses identified in the 2006 FIRST Initiative report. Per the IM & ERF report, the new draft law is "inspired in large part" by the IAIS's ICPs. According to a 2008 Ministry of Finance publication on reforms, the draft legislation also provides for an independent Insurance Regulatory Commission with the necessary powers to undertake supervision of the insurance sector. The draft law was expected to be finalized by the end of May 2006, as stated in the 2006 FIRST Initiative report. However, as of May 2009, there is no publicly available information regarding the implementation of the Law.

### General Overview

In their unpublished joint 1999 Financial Sector Assessment Program (FSAP), the World Bank and the International Monetary Fund (IMF) concluded that the insurance sector in Lebanon was characterized by inadequate regulation and supervision. This observation was revealed in a 2006 report by the Financial Sector Reform and Strengthening (FIRST) Initiative on the drafting of a new Insurance Law in Lebanon. Furthermore, as stated in a 2005 Institut de la Mediterranee & Economic Research Forum (IM & ERF) report, "despite the positive reforms, the [insurance] sector still suffers from a lack of transparency and disclosure of operations, financial and risk reporting" (p. 147). According to the Lawrie Savage & Associates Inc. (LS&A) website, a new Draft Insurance Law was proposed on April 16, 2004, by the Ministry of Economy and Trade (MoET) as part of a project sponsored by the International Finance Corporation, the World Bank, the Canadian International Development Agency, and the FIRST Initiative. The FIRST Initiative, as noted in its 2006 report, launched a "Review and Drafting of a New Insurance Law" project for Lebanon, which was completed in April 2006. The aim of the project was to strengthen the insurance sector in Lebanon through improved regulation and supervision, and to assist Lebanon in drafting a law and related regulations incorporating the 2003 Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS). As a result of the project's implementation, a new Insurance Law was drafted. Regulations related to the law were also prepared, but only to a limited extent due to considerable re-drafting of the Law. The new draft law is expected to address weaknesses identified in the 2006 FIRST Initiative report, including, among others, regulations for specialized insurance activities, investment rules, technical reserves, intervention powers of the supervisory authority, market conduct, corporate

governance, capital adequacy, licensing or withdrawal of licenses, and merger and acquisition rules. Per the IM & ERF report, the new draft law is "inspired in large part by international best practice and the core principles of the International Association of Insurance Supervisors" (p. 147). According to a 2008 Ministry of Finance (MoF) report on reforms, the draft legislation also provides for the establishment of an independent Insurance Regulatory Commission with necessary powers to undertake the supervision of the insurance sector. The draft law was expected to be finalized by the end of May 2006, as stated in the 2006 FIRST Initiative report. However, in 2008 the MoF reported that the legislation was still under governmental review, and, as of May 2009, there is no information publicly available regarding the implementation of the law.

The insurance industry is regulated by the 1968 Insurance Law No. 9812, which was last amended by the New Insurance Law No. 94 of 1999, per information in the 2005 IM & ERF report. The 1999 Insurance Law introduced a solvency margin and raised minimum capital requirements, as well as setting forth technical provisions. Furthermore, it established an "independent" insurance supervisory authority, the Insurance Control Commission (ICC), although it is directly attached to the MoET. The ICC, per the MoET website, is composed of three departments (financial control, legal, and administrative) and is "responsible for monitoring, testing, and enforcing solvency requirements for insurance companies that are licensed to operate." It is also "vested with some powers of intervention over these companies." The Directorate of Insurance Affairs, on the other hand, is "entrusted to implement and to reform all relevant laws and regulations and ensure that commercial companies adhere to them". It is divided into two departments - the Insurance Companies Department and the Regulation of Insurance Companies Department. The two departments provide services such as offering new licenses, investigating consumer complaints, and settling violation fees, according to the MoET website. An Association Agreement between the European Union (EU) and Lebanon was adopted in 2002 and entered into force on April 1, 2006 to promote the development of Lebanon. Lebanon is listed as a member on the IAIS website.

According to the 2006 FIRST Initiative report, the insurance industry in Lebanon is comprised of about 60 insurance companies, with the top 10 companies accounting for around 60 percent of total premiums. The report underlines the importance of regulating insurance intermediaries, which account for over 60 percent of the insurance business. As noted in the 2009 Country Commercial Guide published by the U.S. Department of Commerce, all insurance companies must take the form of a joint-stock company. Also, offshore insurance companies are prohibited in Lebanon.

Further information on compliance with the principles of this standard is provided below.

## ICP 1 Conditions for effective insurance supervision

### Level of Compliance: Insufficient Information

In their unpublished joint 1999 FSAP, the World Bank and the IMF concluded that the insurance sector in Lebanon is characterized by inadequate regulation and supervision. This observation was revealed in the 2006 FIRST Initiative report on the drafting of a new Insurance Law in Lebanon. Furthermore, as stated in a 2005 IM & ERF report, "despite the positive reforms, the [insurance] sector still suffers from a lack of transparency and disclosure of operations, financial and risk reporting" (p. 147). The FIRST Initiative project to draft a new Insurance Law was completed in April 2006. The aim of the project was to strengthen the insurance sector in Lebanon through improved regulation and supervision, and assist Lebanon in drafting a law and related regulations incorporating the 2003 IAIS ICPs. Regulations related to the law were also prepared but only to a limited extent due to considerable re-drafting issues. However, in 2008 the MoF reported that the legislation was still under governmental review, and, as of May 2009, there is still no information

publicly available regarding the implementation of the law. Overall, there is also insufficient publicly available information regarding Lebanon's compliance with ICP 1.

## ICP 2 Supervisory objectives

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 2.

## ICP 3 Supervisory authority

**Level of Compliance:** Insufficient Information

The ICC was created as an independent entity directly attached to the MoET under the 1999 New Insurance Law. The ICC acts as Lebanon's supervisory authority, and is composed of 3 departments (financial control, legal, and administrative). According to the MoET website, the ICC is "responsible for monitoring, testing, and enforcing solvency requirements for insurance companies that are licensed to operate." It is also "vested with some powers of intervention over these companies." The Directorate of Insurance Affairs, on the other hand, is "entrusted to implement and to reform all relevant laws and regulations and ensure that commercial companies adhere to them," and is divided into two departments - the Insurance Companies Department and the Regulation of Insurance Companies Department. The two departments provide services such as offering new licenses, investigating consumer complaints, and settling violation fees, the MoET website elaborates. The new draft law is expected to address weaknesses identified in the 2006 FIRST Initiative report, including, among others, the intervention powers of the supervisory authority. According to the 2008 MoF report, the draft legislation also provides for the establishment of an independent Insurance Regulatory Commission with necessary powers to undertake supervision of the insurance sector. The draft law was expected to be finalized by the end of May 2006, as stated in the 2006 FIRST Initiative report. However, in 2008 the MoF reported that the legislation was still under governmental review, and, as of May 2009, there is no information publicly available regarding the implementation of the law. Overall, there is also insufficient publicly available information regarding Lebanon's compliance with ICP 3.

## ICP 4 Supervisory process

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 4. As noted in the 2005 IM & ERF report, the insurance sector in Lebanon suffers from a lack of transparency.

## ICP 5 Supervisory cooperation and information sharing

**Level of Compliance:** Insufficient Information

An EU-Lebanon Association Agreement was adopted in 2002, and entered into force on April 1, 2006 to promote the development of Lebanon. Lebanon is also listed as a member on the IAIS website. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 5.

## ICP 6 Licensing

**Level of Compliance:** Insufficient Information

According to the LS&A website, the new Draft Insurance Law sets out a comprehensive framework for insurance supervision, which covers, inter alia, requirements for insurer licensing, including minimum capital. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 6.

## ICP 7 Suitability of persons

### Level of Compliance: Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 7.

## ICP 8 Changes in control and portfolio transfers

### Level of Compliance: Insufficient Information

According to the LS&A website, the new Draft Insurance Law includes provisions on mergers and acquisitions. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 8.

## ICP 9 Corporate governance

### Level of Compliance: Insufficient Information

According to the LS&A website, the new Draft Insurance Law includes provisions on corporate governance for insurers. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 9.

## ICP 10 Internal control

### Level of Compliance: Insufficient Information

According to the LS&A website, the new Draft Insurance Law includes provisions on requirements for auditors and actuaries. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 10.

## ICP 11 Market analysis

### Level of Compliance: Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 11.

## ICP 12 Reporting to supervisors and off-site monitoring

### Level of Compliance: Insufficient Information

In its 2003 Report on the Observance of Standards and Codes (ROSC), the World Bank notes that the accounting and auditing regulatory framework is less advanced in the insurance sector than in the banking sector. Although insurance companies are required to prepare their annual financial statements in conformity with International Accounting Standards (IASs) - now International Financial Reporting Standards (IFRSs) - there are no IASs pertaining to insurance contract accounting. Also, the ROSC team could not obtain any financial statement prepared by insurance companies denoting significant compliance gaps both in accounting and auditing practices. The new Draft Insurance Law, per the ROSC, should enhance the regulatory and supervisory framework, and provide specific accounting requirements for insurance companies, and though these requirements differ from IASs, they will ensure consistency among the Lebanese insurance companies. However, once the IASs cover the insurance sector, the ICC will start using them "to serve as a basis for public, shareholder and supervisory purposes" (p. 4). The World Bank also points out that although Lebanon adopted IFRSs, the use of IFRSs for regulated entities could conflict with a few of the provisions in the Code of Commerce. . Therefore, the World Bank advises the Lebanese government to review the legislative base underlying accounting, auditing, corporate financial reporting, and the accounting profession in the country and to introduce mandatory requirement for public interest entities to follow IFRSs. Notwithstanding the above information, there is insufficient information publicly available regarding Lebanon's compliance with ICP 12.

## ICP 13 On-site inspection

**Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 13.

**ICP 14 Preventive and corrective measures****Level of Compliance: Insufficient Information**

According to the LS&A website, the new Draft Insurance Law includes provisions on remedial powers and sanctions. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 14.

**ICP 15 Enforcement or sanctions****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 15.

**ICP 16 Winding-up & exit from the market****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 16.

**ICP 17 Group-wide supervision****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 17.

**ICP 18 Risk assessment and management****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 18. As noted in the 2005 IM & ERF report, the insurance sector in Lebanon suffers from a lack of financial and risk reporting practices.

**ICP 19 Insurance activity****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 19.

**ICP 20 Liabilities****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 20.

**ICP 21 Investments****Level of Compliance: Insufficient Information**

According to the LS&A website, the new Draft Insurance Law includes provisions on insurer investments and coverage of technical provisions. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 21.

**ICP 22 Derivatives and similar commitments****Level of Compliance: Insufficient Information**

There is insufficient publicly available information regarding Lebanon's compliance with ICP 22.

### **ICP 23 Capital adequacy and solvency**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 23.

### **ICP 24 Intermediaries**

**Level of Compliance:** Insufficient Information

According to the LS&A website, the new Draft Insurance Law includes provisions on market conduct, as well as regulation of insurance agents and brokers. Furthermore, in its 2006 report, FIRST Initiative stresses the importance of regulating insurance intermediaries, which account for over 60% of the insurance business. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 24.

### **ICP 25 Consumer protection**

**Level of Compliance:** Insufficient Information

According to the LS&A website, the new Draft Insurance Law includes provisions on market conduct. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 25.

### **ICP 26 Information, disclosure & transparency towards the market**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 26. As noted in the 2005 IM & ERF report, the insurance sector in Lebanon suffers from a lack of disclosure of operational practices.

### **ICP 27 Fraud**

**Level of Compliance:** Insufficient Information

There is insufficient publicly available information regarding Lebanon's compliance with ICP 27.

### **ICP 28 Anti-money laundering/ Combating the Financing of Terrorism**

**Level of Compliance:** Insufficient Information

According to the 2009 U.S. DoS report, provisions of the 2001 Anti-Money Laundering Law expand the type of financial institutions subject to the provisions of the 1956 Law on Banking Secrecy to include insurance companies. The 2001 AML law also clarifies the Central Bank of Lebanon's (BDL) powers to require financial institutions to identify clients; maintain records with regard to information on customer identification; request information about the beneficial owners of accounts; conduct internal audits; and, exercise due diligence in conducting transactions for clients. Nevertheless, there is insufficient publicly available information regarding Lebanon's compliance with ICP 28.

## ANNEX

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Association of Lebanese Insurance Companies - Association des Compagnies d'Assurances au Liban (ACAL)

<http://www.acal.org.lb/>

Central Bank of Lebanon - Banque du Liban (BDL)

<http://www.bdl.gov.lb>

Insurance Control Commission, Ministry of Economy and Trade (ICC)

<http://www.economy.gov.lb/MOET/English/Panel/Insurance/ICC.htm>

Ministry of Economy and Trade (MoET)

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## Standard : Anti-Money Laundering/Combating Terrorist Financing Standard

Level of Compliance: **Intent Declared**

### Summary

Lebanon is a founding member of the Middle East and North Africa Financial Action Task Force (MENAFATF) which is an associate member of the Financial Action Task Force (FATF). Members of the MENAFATF signed a Memorandum of Understanding in 2004, whereby they pledged to adopt and implement the FATF's recommendations. Moreover, in its 2006 annual report, the MENAFATF states that all accession countries must adopt the FATF Forty Recommendations and Nine Special Recommendations. The FATF's 2007-2008 Annual Report also names Lebanon as one of the jurisdictions that has undertaken to implement the FATF's 40+9 recommendations. As noted in a 2009 U.S. Department of State (DoS) International Narcotics Control Strategy Report, Lebanon is scheduled for a MENAFATF Mutual Evaluation on its compliance with international standards. The report adds that Lebanon has been taking measures to strengthen its anti-money laundering and terrorist financing regime since the early 2000s. For instance, with regard to the legal framework, on April 20, 2001, the Lebanese Parliament passed Law No. 318 on Fighting Money Laundering, which criminalizes money laundering, defines fines and sanctions, and creates a framework for lifting banking secrecy. Lebanon also adopted Law No. 547, criminalizing funds related to the financing of terrorism, acts of public/private funds theft, and counterfeiting, as well as Law No. 553, providing an extension to the Penal Code on terrorist financing. Additionally, Law No. 318 also established Lebanon's Financial Intelligence Unit (FIU), the Special Investigation Commission (SIC) as an independent legal entity with judicial powers. Overall, the 2009 U.S. DoS report finds Lebanon significantly vulnerable to money laundering and terrorist financing activities. Most significantly, the DoS recommends that Lebanon become a party to the UN International Convention for the Suppression of Terrorist Financing and to the UN Convention against Corruption.

### General Overview

The FATF, in its 2007-2008 Annual Report, names Lebanon as one of the jurisdictions that has undertaken to implement the FATF's 40+9 recommendations. According to a 2009 U.S. Department of State (DoS) International Narcotics Control Strategy Report, Lebanon is a financial hub for banking activities in the Middle East and eastern Mediterranean with a sophisticated banking sector. Lebanon also has a substantial influx of remittances from expatriate workers estimated to be around 5 billion dollars yearly. Some of these workers have ties with underground finance and trade-based money laundering. The 2009 U.S. DoS report also points out that part of the money from the expatriate Lebanese business community, it is alleged, has been making "charitable donations" to representatives of the Hizbollah, a U.S. designated foreign terrorist organization. Overall, Lebanon is significantly vulnerable to money laundering and terrorist financing activities, the 2009 U.S. DoS report notes.

However, Lebanon has been taking additional measures to strengthen its anti-money laundering and terrorist financing regime since the early 2000s. An earlier U.S. DoS report published in 2007 noted that Lebanon has made progress in implementing the Financial Action Task Force (FATF) Forty Recommendations and Nine Special Recommendations on anti-money laundering (AML) and combating the financing of terrorism (CFT), and was removed from the list of Non-Cooperative Countries & Territories (NCCTs) in 2002. Further, with regard to the legal framework, on April 20, 2001, the Lebanese Parliament passed Law No. 318 on Fighting Money Laundering, which criminalizes money laundering,

defines fines and sanctions, and creates a framework for lifting banking secrecy. Lebanon also adopted Law No. 547, criminalizing funds related to combating the financing of terrorism, acts of public/private funds theft, and counterfeiting, as well as Law No. 553, providing an extension to the Penal Code on terrorist financing. The 2009 U.S. DoS report notes that in September 2007 the Lebanese Cabinet established a National Committee to suppress the financing of terrorism, chaired by the Ministry of Interior. The National Committee membership was expanded to include representatives from the Ministries of Justice, Finance, Interior, Foreign Affairs, Economy, and a representative from the Beirut Stock Exchange in order to coordinate AML policies. The Parliament then approved Law No. 32 in October 2008, which expanded the scope and authority of investigators to include funds originating from corruption activities into money laundering cases. The 2009 U.S. DoS report adds that Lebanese law provides for the confiscation, freezing, and seizing of proceeds of crime. In addition, Lebanon passed Law No. 645 in February 2004, requiring diamond traders to seek proper certification of origin for imported diamonds in order to prevent the trafficking of "conflict diamonds" and allowed Lebanon to participate in the Kimberley Process in September 2005.

Law No. 318 also established Lebanon's Financial Intelligence Unit (FIU), the Special Investigation Commission (SIC) as an independent legal entity with judicial powers. The SIC, as noted on its website, "receives, analyzes, investigates suspicious transaction reports (STRs), and ensures compliance of banks, financial institutions, and other reporting entities with the AML/CFT regulations." It is the sole authority in Lebanon with the exclusive right to lift banking secrecy. According to the 2009 U.S. DoS report, the SIC has been active in providing support to international criminal case referrals as well. From January through October 2008, the SIC investigated 153 cases involving allegations of money laundering, terrorism, and terrorist financing activities. The 2009 DoS report explains that out of the 153 cases, three of them were related to terrorist financing, and the SIC froze the accounts of eleven individuals totaling approximately \$38,000. Also, bank secrecy regulations were lifted in 48 instances. The DoS report adds that although cases were referred for further investigation as of late 2008 there had not been any money laundering convictions. Previously, the 2007 U.S. DoS report had also pointed out that prosecutions and convictions were lacking in Lebanon. The 2009 report notes that an SIC Remote Access Communication (SRAC) system was implemented in 2005 to improve the exchange of information on AML/CFT issues, which resulted in an increase in the number of STRs. However, the 2009 DoS report cautions that "there should be more emphasis on linking predicate offenses to money laundering and not an over-reliance on suspicious transaction reports filed by financial institutions to initiate investigations." Furthermore, the SIC circulates the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, and the list of Specially Designated Global Terrorists designated by the U.S. to all financial institutions. The 2009 DoS adds that as of early November 2008, the SIC signed nineteen memoranda of understanding with counterpart FIUs.

During 2003, Lebanon joined the Egmont Group and increased inter-agency cooperation, notably with customs and the police, according to the 2007 U.S. DoS report. On November 30, 2004, according to the same report, Lebanon was elected as head of the Middle East and North Africa MENAFATF, which promotes AML/CFT measures in the MENA region. Furthermore, the fourteen founding member countries of MENAFATF signed a MoU where they "pledge to adopt, and implement the objectives of the FATF recommendations." According to the 2006 MENAFATF Second Annual Report published in 2007, one of the main criteria for MENAFATF membership accession is the adoption of the FATF Forty Recommendations and Nine Special Recommendations on AML/CFT. The 2009 U.S. DoS report adds that Lebanon is scheduled to undergo its first MENAFATF Mutual Evaluation. Further, Lebanon is a party to the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. The 2009 DoS points out that in October 2008, the Lebanese Parliament agreed that the country would adhere to standards of the UN Convention against Corruption, however, as of March 2009; Lebanon was not a party to that instrument. Most significantly, Lebanon is not a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Further information on compliance with the principles of this standard is provided below.

## 1. Legal Systems and Related Institutional Measures

### Level of Compliance: Insufficient Information

On April 20, 2001, the Lebanese Parliament passed Law No. 318 on Fighting Money Laundering, which criminalizes money laundering, defines fines and sanctions, and creates a framework for lifting banking secrecy, as noted in the 2007 U.S. DoS report. It also adopted Law No. 547, criminalizing funds related to CFT, acts of public/private funds theft, and counterfeiting, as well as Law No. 553, which provides an extension to the Penal Code on terrorist financing. According to the 2009 U.S. DoS report, Lebanese law provides for the confiscation, freezing, and seizing of proceeds of crime. . Furthermore, the 2009 U.S. DoS report notes that in September 2007 the Lebanese Cabinet established a National Committee to suppress the financing of terrorism, chaired by the Ministry of Interior. The National Committee membership was expanded to include representatives from the Ministries of Justice, Finance, Interior, Foreign Affairs, Economy, and a representative from the Beirut Stock Exchange in order to coordinate AML policies. The Parliament then approved Law No. 32 in October 2008, which expanded the scope and authority of investigators to include funds originating from corruption activities into money laundering cases.

With regard to FIU and its function, the 2009 DoS report notes that the SIC, Lebanon's FIU, was established under Law No. 318 as an independent legal entity with judicial powers. The SIC, as noted on its website, "receives, analyzes, investigates STRs, and ensures compliance of banks, financial institutions and other reporting entities with the AML/CFT regulations." It is the sole authority in Lebanon with the exclusive right to lift banking secrecy. According to the 2009 U.S. DoS report, the SIC has been active in providing support to international criminal case referrals as well. The 2007 U.S. DoS report, however, had earlier pointed out that prosecutions and convictions were lacking in Lebanon. The 2009 report also notes that an SIC Remote Access Communication (SRAC) system was implemented in 2005 to improve the exchange of information on AML/CFT issues, which resulted in an increase in the number of STRs. The SIC circulates the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, and the list of Specially Designated Global Terrorists designated by the U.S. to all financial institutions. The 2009 DoS adds that as of early November 2008, the SIC signed nineteen memoranda of understanding with counterpart FIUs. Other organizations involved with regard to supervising money laundering activities in Lebanon are customs, the police, and the general state prosecutor. Despite the above information, none of the sources address Lebanon's compliance with the FATF's requirements for this principle.

## 2. Preventive Measures - Financial Institutions

### Level of Compliance: Insufficient Information

As noted on its website, the Central Bank of Lebanon (CBL) is an autonomous authority which regulates and grants licenses to all banks and financial institutions and is responsible for safeguarding the soundness of the banking sector. According to the 2007 U.S. DoS report, financial institutions and banks are subject to the provisions of the 1956 Law on Banking Secrecy, as well as the 2001 AML law, which clarifies the CBL's powers to "require financial institutions to identify all clients, maintain records of customer identification information, request information about the beneficial owners of accounts, conduct internal audits, and exercise due diligence in conducting transactions for clients." The 2009 DoS adds that all financial institutions and money exchange houses are regulated by Law No. 318, requiring financial institutions to identify clients; maintain records with regard to information on customer identification; request information about the beneficial owners of accounts; conduct internal audits; and, exercise due diligence in conducting transactions

for clients. The Central Bank regulates private couriers who transport currency. Additionally, money service businesses, such as Western Union and Money Gram, are covered by this law and are required to be licensed by the Central Bank. Despite the above information, none of the sources address Lebanon's compliance with the FATF's requirements for this principle.

According to the 2009 U.S. DoS report, the SIC has been active in providing support to international criminal case referrals as well. From January through October 2008, the SIC investigated 153 cases involving allegations of money laundering, terrorism, and terrorist financing activities. The 2009 DoS report explains that out of the 153 cases, three of them were related to terrorist financing, and the SIC froze the accounts of eleven individuals totaling approximately \$38,000. Also, bank secrecy regulations were lifted in 48 instances. The DoS report adds that although cases were referred for further investigation as of late 2008 there had not been any money laundering convictions. The 2009 report also notes that an SIC Remote Access Communication (SRAC) system was implemented in 2005 to improve the exchange of information on AML/CFT issues, which resulted in an increase in the number of STRs. However, the 2009 DoS report cautions that "there should be more emphasis on linking predicate offenses to money laundering and not an over-reliance on suspicious transaction reports filed by financial institutions to initiate investigations."

### **3. Preventive Measures - Designated non-Financial Business and Professions**

#### **Level of Compliance:** Insufficient Information

According to the 2007 U.S. DoS report, provisions of the 2001 AML Law expand the type of financial institutions subject to the requirements of the 1956 Law on Banking Secrecy to include institutions such as exchange offices, financial intermediaries, leasing companies, mutual funds, insurance companies, real estate companies, and firms engaged in high-value transactions. Furthermore, the 2001 AML Law requires real estate companies, as well as firms engaged in high-value transactions to provide STRs. The 2009 U.S. DoS report adds that Lebanon passed Law No. 645 in February 2004, requiring diamond traders to seek proper certification of origin for imported diamonds in order to prevent the trafficking of "conflict diamonds" and allowed Lebanon to participate in the Kimberley Process in September 2005. Despite the above information, none of the sources address Lebanon's compliance with the FATF's requirements for this principle.

### **4. Legal Person and Arrangements & Non-Profit Organizations**

#### **Level of Compliance:** Insufficient Information

According to the 2009 U.S. DoS report, charitable and nonprofit organizations must be registered with the Ministry of Interior and are required to have proper corporate governance, including audited financial statements. These organizations are also subject to suspicious activity reporting requirements. Nevertheless, there is insufficient information publicly available addressing Lebanon's compliance with the FATF recommendations relating to this principle.

### **5. National and International Co-operation**

#### **Level of Compliance:** Insufficient Information

During 2003, Lebanon joined the Egmont Group and increased inter-agency cooperation, notably with customs and the police, according to the 2007 U.S. DoS report. On November 30, 2004, according to the same report, Lebanon was elected as head of the Middle East and North Africa MENAFATF, which promotes AML/CFT measures in the MENA region. Furthermore, the fourteen founding member countries of MENAFATF signed a MoU where they "pledge to adopt, and implement the objectives of the FATF recommendations." According to the 2006 MENAFATF Second Annual Report published in 2007, one of the main criteria for MENAFATF membership accession is the adoption of the FATF

Forty Recommendations and Nine Special Recommendations on AML/CFT. The 2009 U.S. DoS report adds that Lebanon is scheduled to undergo its first MENAFATF Mutual Evaluation. Further, Lebanon is a party to the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. The 2009 DoS points out that in October 2008, the Lebanese Parliament agreed that the country would adhere to standards of the UN Convention against Corruption, however, as of March 2009; Lebanon was not a party to the UN convention. Most significantly, Lebanon is not a party to the UN International Convention for the Suppression of the Financing of Terrorism. Despite the above information, none of the sources address Lebanon's compliance with the FATF's requirements for this principle.

## ANNEX

### Sources of Assessment

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### Relevant Organizations

Central Bank of Lebanon - Banque du Liban (CBL)

<http://www.bdl.gov.lb>

General State Prosecutor

Lebanese Customs

<http://www.customs.gov.lb/customs/index.htm>

Middle East and North Africa Financial Action Task Force (MENAFATF)

<http://www.menafatf.org/>

Ministry of Finance of the Republic of Lebanon (MoF)

<http://www.finance.gov.lb/>

Ministry of Interior and Municipalities (MOIM) (in Arabic only) [www.moim.gov.lb/](http://www.moim.gov.lb/)

Special Investigation Commission (SIC)

<http://www.sic.gov.lb/>

## Relevant Legislation/Regulation

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## Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

### Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

### Levels of Compliance

The review of available information culminates in the assignment of a level of compliance for each standard and principles of the standard. Compliance with the 12 Key Standards for Sound Financial Systems is measured on a scale of six compliance categories. These particular categories have been selected because they mirror the process a country follows when implementing standards and codes.

**FULL COMPLIANCE:** There is publicly available information indicating that the country has incorporated the principles of the relevant standard into laws or regulations, and that these principles are currently being applied and followed in an effective, consistent, and transparent manner.

**COMPLIANCE IN PROGRESS:** There is publicly available information indicating that the country has incorporated the principles of the relevant standard into laws or regulations and that there has been significant progress made towards the effective enforcement of the laws or regulations by regulators and supervisors, albeit with minor shortcomings.

**INTENT DECLARED:** The country has made a formal, public, and authoritative declaration that it will incorporate the principles of the relevant standard into laws or regulations and will adhere to the standard.

**NO COMPLIANCE:** There is publicly available information indicating that the country has not incorporated the principles of the relevant standard into laws or regulations or has taken any steps to comply with the relevant standard.

**INSUFFICIENT INFORMATION:** There is not enough information publicly available to make an assessment as to the country's level of compliance with the relevant standard