Association of Banks calls for Strengthening Anti-Money Laundering Framework

Three important bills in the Parliament pertaining to anti-money laundering and exchange of tax information have seen strong lobbying from the Association of Banks in Lebanon (ABL) which was keen to underline the importance these topics to uphold the credibility of Lebanon among international circles.

One of the bills also call Lebanon's adherence to the United Nation's 1999 International Convention for the Suppression of the Financing of Terrorism. The first draft law allows amendments to anti-money laundering Law 318, the second draft law regulates the transfer of funds across borders and the third one is about the exchange of tax information. ABL considers that the ratification of the three draft laws would strengthen the country's anti-money laundering framework.

The Association stressed that requirements for Lebanon to join the United Nation's treaty are simple and consist of including the international organization's definition of terrorism in clauses 314, 315 and 316 of the Lebanese Penal Code. It said that Lebanon's banking secrecy does not contradict the United Nation's convention due to the presence of the Special Investigation Commission against Money Laundering that regulates the lifting of banking secrecy. Also, it noted that Lebanon ratified the Arab Convention on the Suppression of Terrorism in 1999 and signed several bilateral agreements to combat terrorism that are similar to the United Nation's convention. It reminded that 171 countries, including 15 Arab countries, have already joined the United Nation's 1999 International Convention for the Suppression of the Financing of Terrorism.

The ABL noted that the first draft law consists of expanding the definition of anti-money laundering to include most financial crimes, such as the protection of intellectual property, as well as to expand the declaration forms to include new professional sectors, such as public notaries and lawyers, in accordance with international criteria. Further, ABL pointed out that regulating the transfer of funds across borders does not put at risk capital inflows to Lebanon. It noted that the law requires incoming visitors to disclose the amount of cash they have at border entry points, which would facilitate the deposit of these amounts at financial institutions in Lebanon. It noted that most of the financial inflows to Lebanon go through the financial and banking sector, while inflows in the form of cash represent a small share of total inflows.

Finally, ABL said that the draft law on the exchange of tax information is part of the Organization for Economic Cooperation and Development's (OECD) decisions and mechanisms to combat tax evasion.

The Anti-Money Laundering Forum

On Monday the 4th and Tuesday the 5th of May 2015, under the patronage of the Governor of the Central Bank of Lebanon, the Lebanese Association of Certified Public accountants in collaboration with the Special Investigation Commission held a forum on "The Anti-Money Laundering

Forum Legal Requirements and Audit Procedures".

The Legal and regulatory requirements for fighting money laundering and terrorism financing were the main topics. Objectives of this agenda are to present current requirements from legal and regulatory perspectives, updates on fighting money laundering/ terrorism financing across the globe, and to discuss the impact of the latest international updates on Lebanese laws/regulations.

Also, the challenges on compliance with legal and regulatory requirements from independent auditors, internal auditors and compliance perspective were discussed. The objectives of this agenda were to present the roles and responsibilities of independent auditors, internal auditors and compliance under the requirements of Lebanese laws and regulations, discuss the challenges faced, the importance of independency and coordination among the three concerned parties and its effects on non-compliance.

The Governance and the control environment in banks and financial institutions were also discussed. The objectives of this agenda were to present the requirements of effective governance and its impact on compliance with laws and regulations, and discuss management philosophy and operating style in managing compliance risk.

The shadow banking and non-regulated sectors were also on the agenda to identify risks associated with shadow banking activities and non-regulated sectors.

The workshop on root cause of practical compliance failures in detecting money laundering and relevant corrective remedies were also on the agenda to present and discuss money laundering practical cases, discuss root cause of detection failures, and procedures that should have been applied to minimize the detection of risk.

"Dry up the Sources of Terrorist Financing Mechanisms Forum": "Beirut Declaration" and an Agreement on the Arab Coordination

The regulatory and supervisory authorities in the world multiplied their efforts to fight against terrorist financing systems by imposing more stringent requirements and penalties on non-compliant parties.

There is no doubt that Lebanon has made paramount steps in the development of the legal and regulatory structure in this area, although the developments experienced in the region require more exceptional measures to put an end to this phenomenon and prevent its expansion even more.

In this context, the Banking Forum, which was organized by the Union of Arab Banks and in collaboration with the International Union of Arab Bankers, in

Beirut, under the title "Dry Up the Sources of Terrorist Financing Mechanisms", has sponsored the largest banking and security gathering of the Lebanese, Arab and international groups that are active in the fight against the financing of terrorism. The event was under the auspices of the Minister Interior Nihad Mashnouk and in the presence of a number of leaders of the Arab and international institutions, led by the Secretary General of the Council of Arab Interior Ministers, Dr. Mohammed bin Ali Kuman.

After signing the **Beirut Declaration** between the General Secretariat of the Union of Arab Banks and the General Secretariat of the Council of Arab Interior Ministers, the participants and attendees agreed on the full implementation of procedures such as "know your customer and client customer", according to the degree of risk and verification procedures, as well as how to find out banking operations that can be exploited, and the method of monitoring the operations and the movement of suspicious money.

The Forum issued recommendations on ways to combat the financing of terrorism in line with the provisions of international and international strategic law and the United Nations on combating terrorism and to strengthen the international system to combat the financing of terrorism through the full implementation of the recommendations of the Financial Action Task Force (FATF) and the Security Council resolutions to combat the financing of terrorism relationship, through several means, including: the prosecution of terrorist financing and investigated at the level of groups or individuals, the application of financial sanctions imposed on individuals or entities in accordance with the resolutions of the Security Council of the United Nations.

Combatting Money Laundering and Terrorism Financing

By: Dr. Makram Sader

The Association of Banks in Lebanon has appealed to the parliament again to pass three important bills pertaining to the declaration of amounts of carried cash at the border and exchange of tax information as well as expansion of financial crimes covered by anti-money laundering law.

These bills constitute a legal framework that protects the work and the practice of banks at this level. It also protects the resolutions and circulars of the Central Bank of Lebanon and the Special Investigation Commission.

The **first** amendment provide for the expansion of financial crimes covered by the mentioned law from seven financial crimes to 17. The 10 new proposals include ten offenses such as incitement to debauchery crimes by organized networks, felonies, the denial of freedom, theft, and abuse of trust, illegal speculation, fraudulent bankruptcy crimes and crimes related to the literary and intellectual property rights.

The **second** amendment can be attributed to a number of improvements that have been made for a range of definitions and procedures: The drafting of this law has already benefited from the application of the laws and circulars during the period 2001-2015.

The third amendment focuses on the expansion of the sectors covered by the law to include, for example, lawyers with regard to informing the SIC of financial crimes, based on the system and mechanism drafted by the lawyers Syndicate of Beirut and Tripoli.

The amendments also expand the powers and scope of work of the Special Investigation Commission, in addition to expanding sanctions on some financial crimes as an amendment to the provided in the applicable existing laws; knowing that the amendments to the scope of work of the Commission and its powers fall in the context of international standards.

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Central Bank sets guidelines about the transparency of financial products and services

New guidelines on how banks and financial institutions should communicate the details of products and services to their clients were set by the Central Bank in circular number 134 dated February 12, 2015.

The circular aims to encourage banks and financial firms to explain very thoroughly the details of all the services and products for their clients so there won't be any misunderstanding.

The circular pointed out that employees should provide key information to customers about the characteristics of the products and services, about their risks and benefits, as well as about how fees, commissions and interest rates on a product are calculated.

According to the circular, the employees should take into account the clients' level of financial literacy when presenting the products and services. The circular said that the information should be available at the head office, at all branches, on the institution's website and should be disseminated through all other channels of communications with clients.

The circular mandates banks and financial institutions to prepare a list of the clients' rights and obligations as per the Central Bank's guidelines.

Banks and financial firms are obliged to provide their customers with a copy of the list, which should be available in Arabic and in one foreign language, and to explain to them its content in details.

New Banking Control Commission appointed by Cabinet

Two new members to the Banking Control Commission were appointed by the

Cabinet and renewed the terms of the remaining three others.

The new members are Mr. Samir Hammoud who will serve as the BCCL's Chairman, and Mr. Joseph Sarkis as member. The commission's new term starts on March 17, 2015. According to the law, the Chairman should be a specialist in banking, finance, or a university academic. Also, one member should be nominated by the Association of Banks in Lebanon; a member nominated by the National Deposit Guarantee Institution; and two members must have the appropriate professional background.

Established in 1967, the BCCL's main duty is to supervise banks, financial institutions, money dealers, brokerage firms and leasing companies. It evaluates the financial soundness of regulated entities through on-site and off-site reviews. It currently has a staff of 131 persons, including 104 examiners. The BCCL performs its supervisory functions as an independent body, but in close coordination with the Governor of the Central Bank of Lebanon who has the legal prerogative to ask for all reports of the Commission. Further, the BCCL has the right to impose corrective and remedial measures on individual banking institutions if necessary.

Standard & Poor's says deposit inflow help maintain positive stable outlook of Lebanon

The sustained deposit inflows into Lebanese financial system was one of the main factors which prompted international rating agency Standard & Poor's to affirm Lebanon's Long and short-term foreign and local currency sovereign credit ratings at 'B-/B' and maintained the 'stable' outlook on the long-term ratings.

These deposits have allowed the government to meet its financing needs despite the difficult internal and external political environments. It pointed out that the government's debt servicing capacity is heavily dependent on the strength of deposit inflows and on the financial sector's willingness and ability to continue buying government debt. The agency considered that the current growth rate of private sector deposits would be sufficient to allow the banking sector to finance the wide fiscal deficit and to meet credit demand from the private sector.

S&P noted that confidence in the Lebanese financial system is strong and is not likely to be significantly affected by domestic political developments, except in the case of a major escalation of local unrest. It added that the resiliency of the financial sector is supported by the Central Bank's policies of maintaining a high level of foreign currency reserves, price stability and a favorable interest rate differential. However, it noted that the government's dependence on a single source to finance its needs is a structural weakness that increases the country's vulnerabilities to adverse business, financial and economic conditions.

S&P anticipated that regional crises will continue to limit economic growth and did not expect a significant rebound in tourism, financial & trade services, or FDI in 2015. It noted that the Lebanese economy is highly sensitive to swings in consumer and investment confidence.

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IMF: Lebanon should not count on customer deposits only to reduce deficit

The International Monetary Fund underlined the importance of seeking a decisive change in Lebanon's fiscal policy and against counting on the flow of customer deposits to the country.

The growth rate of deposits is slowing. A decisive change in policies is thus needed to strengthen confidence, which cannot be taken for granted in the current international environment, the IMF said in its latest statement on Lebanon.

IMF repeated calls for sustained and balanced fiscal adjustment to reduce the deficit.

In the recent past, high growth and low global interest rates have helped lower Lebanon's debt burden. But global and domestic conditions will be less favorable in the foreseeable future, and without adjustment public debt will continue to increase – and with it risks and vulnerabilities will further rise, the IMF warned.

Among the measures proposed by IMF is an increase of the value added tax in a bid to increase government revenues.
"The authorities need to seize the opportunity afforded by low oil prices to remove the VAT exemption on diesel immediately, and increase gasoline excises. Additionally, we recommend a modest increase in the VAT rate, by one percentage point; and increased transparency and regularity in the telecom transfers," the statement said.

IMF also reiterated calls to implement wide ranging reforms in the electricity sector.

Lebanon's inefficient electricity supply is a major impediment to growth: EDL losses weigh heavily on public finances, and poor service delivery has prompted the extensive use of costly private generators. The refugee crisis has put further strains on the sector, the IMF said.

The IMF emphasized that the government should pursue longstanding plans to strengthen public generation capacity, switch to less expensive natural gas, improve transmission and distribution, and progressively increase tariffs.

The ultimate goal should be zero EDL transfers, freeing up fiscal resources for more productive uses, it said.

Lebanon's banking sector indicators favorable compared to emerging markets

The credit to the resident private sector in Lebanon is estimated to be equivalent to 94.3 percent of GDP at the end of 2014, according to leading international investment bank Merrill Lynch.

It added that these estimates are even higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 47.1 percent of GDP and Latin America's ratio of 38 percent of GDP, but lower than Asia's ratio of 123 percent of GDP.

It added that Lebanon has the ninth highest credit-to-GDP ratio among 57 emerging markets, the second highest such ratio in the EEMEA region and the highest ratio among 12 Arab countries included in the survey. Also, Merrill Lynch estimated the non-performing loans ratio (NPL) in the Lebanese banking sector at 4 percent, lower than the EEMEA's NPL ratio of 5.8 percent, and compared to NPL ratios of 2.9 percent for Latin America and 1.9 percent for Asia.

The Lebanese banking sector has the 26th lowest NPL ratio among 52 banking sectors, the 11th lowest ratio in the EEMEA region and the fifth lowest among Arab countries.

Merrill Lynch estimated money supply in Lebanon to be equivalent to 248 percent of GDP, significantly higher than Asia's ratio of 135.5 percent of GDP, the EEMEA's ratio of 54.6 percent of GDP and Latin America's rate of 49.1 percent of GDP. Also, Lebanon has the second highest level of money supply relative to its GDP among 57 emerging markets, behind only Hong Kong where money supply is equivalent to 490 percent of GDP.

Lebanon 10th Highest Among Developing Economies in Terms of Expatriates Remittances

Remittances from Lebanese expatriates swung in a recent estimate by the World Bank.

According to the World Bank, the remittances from Lebanese expatriates jumped to $8.9 billion from $7.67 billion, a figure projected in October 2014.

It also revised upwards its figure for remittance inflows to Lebanon to $7.86 billion in 2013 from $7.55 billion earlier, while it revised downward its estimate for such inflows to $6.73 billion in 2012 from $6.92 billion previously. For this reason, remittance inflows increased by 13.2 percent in 2014 and rose by 16.8 percent in 2013.

Lebanon posted the second highest growth among the 15 largest recipients of remittances in developing economies last year, behind only Pakistan (+16.6 percent). In comparison, remittance inflows to developing countries rose by 4.4 percent, flows to Arab countries increased by 7.5 percent and inflows to Upper Middle Income Countries (UMICs) grew by 5.7 percent in 2014. The World Bank attributed the increase in remittance inflows to Lebanon in 2014 in part to remittances sent to Syrian refugees in Lebanon, as well as to better economic activity in the main countries hosting

Lebanese expatriates such as the United States.

Lebanon was the 14th largest recipient of remittances in the world and the 10th largest recipient among 125 developing economies in 2014. Also, it was the second largest recipient of remittances among 16 Arab countries and the third largest among 50 UMICs.

Globally, Lebanon received more remittances than Indonesia ($8.55bn), Italy ($7.71bn) and Ukraine ($7.59bn), and less than Vietnam ($12bn), Belgium ($11.3bn) and Spain ($11bn). It was a larger recipient of remittances than Indonesia, Ukraine and Sri Lanka ($7.04bn), and a smaller recipient than Pakistan ($17.06bn), Bangladesh ($15bn) and Vietnam among developing economies. Also, remittance inflows to Lebanon were lower than only inflows to Egypt ($19.61bn) among Arab countries and less than flows to China ($64.14bn) and Mexico ($24.87bn) among UMICs.

Capital controls on foreign banks in Cyprus extended

Lebanese and foreign banks operating in Cyprus will continue to benefit from relaxation of capital controls until March 17, 2015 instead of February 16, 2015.

The Cypriot Central Bank issued Decree 27 that extended the period during which branches and subsidiaries of foreign banks operating in Cyprus can benefit from the relaxation of capital controls.

In March 2013, Cypriot authorities imposed capital control measures on commercial banks operating on the island in the wake of the country's financial crisis. The benefiting Lebanese banks are nine.

The decree allows all cashless payments or transfers of deposits and funds from an eligible bank for its own account or by the order of an international customer.

It also permits all transactions between eligible banks and international customers, as well as all transactions among international customers.

Furthermore, this decree permits the execution of all transactions between an eligible bank and an entity outside the country, either for an international customer or for the bank's own account.

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