



The Lebanese Banks and the Challenges of the "Grey List"

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Recently, Lebanon was added to the Financial Action Task Force (FATF) "Grey List," highlighting jurisdictions under increased monitoring. Despite this designation, Lebanese banks have reaffirmed their commitment to FATF standards and regulations. They do not foresee immediate risks to relationships with international correspondent banks, although potential long-term challenges may require proactive planning and response.

1. Commitment of Lebanese Banks to FATF Standards

For years, Lebanese banks have diligently aligned with international standards to combat money laundering, terrorism financing, and international sanctions evasion, underscoring their commitment to global financial norms. These efforts include:

- Adopting advanced monitoring and compliance systems.
- Enforcing rigorous auditing and operational controls.
- Conducting specialized training for employees.

Lebanese banks have reiterated their ongoing commitment through updating and developing their systems to align with FATF requirements, integrating cutting-edge technologies to enhance compliance and transparency.

2. Maintaining Relationships with International Correspondent Banks

Thanks to their adherence to international standards, Lebanese banks maintain robust ties with international correspondent banks, which play a critical role in linking Lebanon to the global economy. These relationships, built over decades of cooperation and compliance, are not expected to be significantly affected by the Grey List designation. Correspondent banks acknowledge Lebanon's ongoing efforts to meet required preventive standards, with no indications of terminating nor restricting collaborations.

3. Impacts of the Grey List: Indirect Effects on the Banking Sector

While no direct threats have emerged, Lebanon's Grey List inclusion may result in gradual, indirect consequences requiring careful management. These include:

a. Increased Scrutiny by Correspondent Banks

Lebanon's inclusion on the Grey List may lead to heightened scrutiny from some correspondent banks regarding transactions conducted by Lebanese banks, aiming to ensure compliance with anti-money laundering and terrorism financing regulations. This could lengthen the time required to process some financial transactions, indirectly increasing operational costs and necessitating extra efforts to maintain service standards.

b. Decline in Foreign Investment Appeal

The Grey List designation may deter potential foreign investors due to perceived risks, potentially reducing Lebanon's attractiveness as an investment destination. This could pressure Lebanese banks to reassure foreign shareholders and encourage recapitalization if needed.

c. Potential Impacts on International Financial Facilities

Although there is no direct threat to the relationships with correspondent banks, some international financial institutions might view Lebanon's inclusion on the Grey List as an additional challenge. This could lead to reconsidering the terms for financial facilities extended to Lebanese banks or limiting them, including stricter lending conditions, additional fees on international transfers, or even reevaluation of financial risks associated with Lebanon.

d. Effects on International Credit Ratings

Lebanon's Grey List status could negatively impact its credit rating, complicating access to international loans or financing at favorable rates. If unresolved, these issues could present significant long-term challenges.

4. Lebanese Banking Sector's Resilience in Facing Challenges

Despite these challenges, Lebanese banks remain confident in their ability to address any indirect effects arising from Lebanon's inclusion on the Grey List. The Lebanese banking sector has demonstrated adaptability to various challenges since the beginning of the systemic crisis in Lebanon, especially with its keenness to enhance transparency, maintain operational efficiency, and adherence to international directives.

To mitigate indirect impacts, Lebanese banks are:

- Strengthening relationships with international regulatory bodies and correspondent banks.
- Enhancing transparency in operations.
- Implementing more effective internal monitoring systems to align with FATF standards.

Conclusion

Lebanon's inclusion on the FATF Grey List presents new challenges for the banking sector but does not pose a direct threat to its operations or continuity. By adopting additional preventive policies, enhancing transparency, and maintaining cooperation with international institutions, Lebanese banks can effectively manage any indirect repercussions and adapt to the evolving regulatory landscape. Their proactive strategies will play a crucial role in maintaining the sector's resilience and long-term viability.

Note: This article is part of a series written by the Secretary General of the Association of Banks in Lebanon as part of his introductory articles to a number of periodicals issued by ABL. It represents his own opinion and personal analysis of the developments, without committing ABL to its content, which remains the sole responsibility of the Secretary General.
