

Basic Circular No 83

Addressed to Banks and Financial Institutions

Attached are a copy of Basic Decision¹ No. 7818 of May 18, 2001, and a copy of the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering, attached thereto.

Beirut, May 18, 2001

The Governor of the Banque du Liban

Riad Toufic Salamé

Old Numbering: 1912

¹- Pursuant to the provisions of Article 2 of Intermediate Decision No 8488 of September 17, 2003 (Intermediate Circular No 35), banks and financial institutions must notify this Decision and the attached Regulations to their auditors.

Basic Decision No 7818

**Regulations on the Control of Financial and Banking Operations
for Fighting Money Laundering**

The Governor of the Banque du Liban,

**Pursuant to the provisions of Law No. 318 of April 20, 2001, on Fighting Money Laundering, notably the provisions of Article 5 thereof; and
Pursuant to the Decision of the Central Council of the Banque du Liban, taken in its meeting of May 16, 2001,**

Decides the following:

Article 1:

The attached Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering come hereby into effect.

Article 2:

The following provisions are repealed:

- 1- Paragraph 2 of Article 1 of Basic Decision No. 6349 of October 24, 1996, attached to Basic Circular No 29 of October 24, 1996 addressed to Banks and Financial Institutions.
- 2- Decision No 7511 of January 21, 2000, attached to Circular No 1792¹ of January 21, 2000 addressed to Banks.

Article 3:

This Decision and the attached Regulations shall come into effect upon their issuance.

Article 4:

This Decision and the attached Regulations shall be published in the Official Gazette.

Beirut, May 18, 2001

The Governor of the Banque du Liban

Riad Toufic Salamé

¹- As in the old numbering system.

Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering¹

Article 1:

These regulations are set under the provisions of Article 5 of Law No. 318 of April 20, 2001, on Fighting Money Laundering.

Section I- Control on financial operations for fighting money laundering

Article 2:

Banks and financial institutions operating in Lebanon must:

- 1- Ascertain the identity and activities of their correspondents and make sure, when dealing with them for the first time, that they really exist, based on submitted documentary evidence. In particular, they must make sure that the foreign bank with which they deal is not a shell bank.
- 2- Exercise control on their operations with clients to avoid involvement in money laundering operations resulting from any of the offenses specified in Law No. 318 of April 20, 2001 by following, for indicative purposes but not restrictively, the mandatory rules set out in these Regulations.

Section II- Checking the client's identity, determining the economic right owner (the actual beneficiary) of the intended operation

Article 3:

Checking the client's identity:

- 1- Banks and financial institutions must, as far as each is concerned, adopt clear procedures for opening new accounts, in particular for determining the economic right owner. They must also check the identity of all their permanent and transient clients, whether resident or non-resident, notably in the following instances:
 - The opening of all kinds of accounts, including fiduciary accounts, numbered accounts, and accounts held by persons who might be the object of suspicion.
 - Lending operations.
 - The conclusion of contracts for leasing bank safes.
 - Cashier's operations when the amount exceeds US\$ 10,000 or the equivalent in any other currency.

¹- These Regulations have been replaced through Article 1 of Intermediate Decision No 8488 of September 17, 2003 (Intermediate Circular No 35).

Cashier's operations include cash payments made by the client at the bank's counters (deposit of funds, exchange of currencies , purchase of precious metals, purchase of financial instruments in cash, cash subscription to vouchers at the counter, purchase of traveler's checks in cash, transfer orders paid in cash, etc.).

- 2- Regardless of the amount involved, the officer in charge of the operation must also check the client's identity when noticing that, on the same account or on multiple accounts of the same person, several operations are being carried out for amounts that are separately less than the minimum specified in Par. 1 of this Article but totaling more than USD 10,000 or the equivalent. The same identity checking should take place if the client is suspected of trying to make a money-laundering operation.
- 3- In order to check the client's identity, the officer in charge of the operation must:
 - 1) Request the following documents from the client:
 - a- In case the client is a natural person: a passport, an identity card, an individual civil registration, or a residence permit.
 - b- In case the client is a legal entity: duly registered documents regarding its by-laws, its registration certificate, the identity of the person empowered to sign on its behalf, and the identity of its legal representative.
 - c- In case the operation is effected through an authorized representative (proxy): the original power of attorney or a certified copy thereof, in addition to documents regarding the identity of both the client and the authorized representative.
 - d- In case the operation is effected by correspondence: an authentication of the client's signature on the same document or separately. The signature's authentication or the verification of the non-resident client's identity may be obtained from a correspondent or affiliated bank, or from a branch or a representative office of the concerned bank, or from another bank whose authorized signatures can be verified.
 - 2) Keep, at least for five years after implementing the operation or closing the account, the full name and residential address of the client, with information about the professional and financial status of the said client, together with copies of all documents used in the checking process.
- 4- A client is meant to be any natural person or legal entity, whether a company or an institution of any kind, or a non-profit organization or association (mutual funds, cooperatives, welfare centers, charitable associations, clubs, etc.).

Article 4:

The bank/financial institution must request from each client a written statement about the identity of the economic right owner (the actual beneficiary) of the intended operation, notably his full name and residential address (the name of the institution, its head office and home country, in case the owner is a legal entity or a company), in addition to information about his professional and financial status. The bank/financial institution must keep a copy of this statement if it has doubts that the client is not the economic right owner, or in case the client states that the said

owner is a third party, especially when operations are carried out as mentioned in Article 3, Par. 1 and 2, of these Regulations.

Article 5:

Doubts about the identity of the economic right owner would arise in the following instances, which are mentioned for indicative purposes but not restrictively:

- a- When a power of attorney is given to a nonprofessional person (who, for instance, is not a lawyer, a fully authorized representative, or a financial intermediate) and when it appears that the relationship to the client does not justify the proxy operation; or when the business relationship is conducted through false names or numbered accounts, or through umbrella institutions or companies.
- b- When the financial status of the client intending to make the operation is known to the officer in charge and the operation's value is disproportionate to the financial status of the said client.
- c- When, through the conduct of business with the client, any other indicator draws the attention of the bank/financial institution.

Article 6:

The bank/financial institution must immediately inform the Governor of the Banque du Liban in his capacity as Chairman of the Special Investigation Commission, established by virtue of Article 6 of Law No. 318 of April 20, 2001, when it holds evidence or has doubts that an operation involves money laundering, especially:

- When it has persistent doubts about the credibility of the written statement submitted by the client regarding the identity of the economic right owner, or when it discovers that false information has been given on the identity of the said owner.
- When it realizes that it was misled in the course of checking the client's or the economic right owner's identity, while having persistent, serious and precise doubts about the information provided by the client.
- When transferred amounts or checks are returned, whether directly or upon the request of concerned parties, particularly correspondent banks, either because of forgery or because of doubts that they involve suspicious operations.

Article 7:

The bank/financial institution shall periodically check again the identity of the client or re-determine the economic right owner, including the owners of accounts opened before the publication of Law No 318 on fighting money laundering, in order to modify or add, on the adopted KYC (know your customer) Form, any new information resulting from any changes in the client's status, especially in case of doubts about the veracity of previously provided information, or when changes have subsequently occurred in the client's or the economic right owner's identity.

Therefore, the bank/financial institution must set up working plans with precise dates, in order to fulfill these obligations.

Section III- Controlling some operations and clients¹

Article 8:

- 1- The bank/financial institution must enquire from the client about the source and destination of funds, the object of the operation, and the identities of both the beneficiary and the economic right owner, when it finds that the intended operation is:
 - a- An operation with the specifications mentioned in Article 3, Par. 1 and 2 of these Regulations.
 - b- An operation carried out in exceptionally complicated circumstances. In this respect, the bank/financial institution must assess the said circumstances not only in relation to the nature and type of the operation, but also in relation to its apparent goal.
 - c- An operation that seems to have no economic rationale or legitimate objective, especially when there is a discrepancy between the operation and the client's professional activity, or even between the operation and the client's habits and personality.

- 2²- When a bank accepts a check drawn on it by a money exchange institution, or when it executes a banking transaction requested by a money exchange institution in favor of one of its clients, whether directly or indirectly, and when the value of the check or transaction exceeds USD 10,000 or its equivalent, the said bank must:
 - a- Make sure that it has received the notification, stipulated in Article 9 of the Implementation Rules of the Law Regulating Money Changer Profession, attached to Basic Decision No 7933 of September 27, 2001, concerning the information requested about the check-related transaction or the banking transaction, particularly whether the transaction was carried out by the money exchange institution in exchange of funds received in cash or not, as well as about the source and destination of funds, and the identity of both the beneficiary and the beneficial owner.
 - b- Keep this notification for a five-year period.
 - c- Obtain this notification directly from the concerned money exchange institution in case it is not yet received when the check is submitted, or the banking transaction is requested.

- 3³- In case an exchange institution fails to send the notification specified in paragraph (2), the concerned bank must promptly inform the Banque du Liban.

¹- The title of this Section was modified by Article 1 of Intermediate Decision No 10147 of May 9, 2009 (Intermediate Circular No 190).

²- This paragraph was added by Intermediate Decision No 9232 of January 9, 2006 (Intermediate Circular No 100), then amended by Article 2 of Intermediate Decision No 10147 of May 9, 2009 (Intermediate Circular No 190).

³- This paragraph was added by Article 2 of Intermediate Decision No 9232 of January 9, 2006 (Intermediate Circular No 100).

- 4¹- The bank/financial institution must immediately inform the Governor of the Banque du Liban in his capacity as chairman of the Special Investigation Commission when, in light of the answers received, it has serious doubts that the operation is an attempt to launder funds resulting from any of the offenses specified by law

Article 9:

Banks/financial institutions must, as far as each is concerned:

a- Give special attention, for indicative purposes but not restrictively, to the following indicators on money laundering:

- 1- The exchange of big amounts of small-denomination bills for large-denomination bills of the same currency or of any other currency.
- 2- The undertaking of large or recurrent foreign exchange operations (cambio), by using cash funds.
- 3- Certain movements in the client's account, such as making large or recurrent deposits reaching a determined ceiling or a huge volume, unjustified by the client's apparent activities.
- 4- The operation of an account for the main purpose of transferring abroad, or receiving from abroad, sizeable amounts of money, while it appears to the officer in charge of such operations that they are not justified by the client's activities.
- 5- The undertaking of large or recurrent operations related to the client's offshore activities considered by the officer in charge of such operations as disproportionate to the volume of the client's activities.
- 6- The replacement of large cash funds by electronic transfer requests or by bank checks.
- 7- A change in the pattern of deposit operations made by a client exempted from filling the cash transaction slip (C.T.S.)
- 8- The undertaking by a client of large cash operations in the form of deposits and withdrawals, with insufficient personal identification.
- 9- The fact of receiving or cashing checks issued abroad to the bearer, or to the order of a person but previously endorsed by persons other than the depositor; or the fact of receiving or cashing checks of different amounts that may be unrelated to commercial transactions or alleged to be gambling gains.
- 10- The occurrence of cash deposits and/or bank transfers followed by direct and numerous withdrawals.
- 11- The holding by the client of numerous accounts unjustified by the nature of his activities, or the undertaking of numerous cash transfers between and through these accounts.
- 12- The occurrence of cash deposits and/or bank transfers, while the client's activities do not generate such a volume of funds.
- 13- The fact of depositing bank/traveler's checks in the account of a company/institution whose activities do not justify such deposits.

¹- The number of this paragraph was changed through Article 1 of Intermediate Decision No 9232 of January 9, 2006 (Intermediate Circular No 100).

14- The occurrence of cash operations and/or bank transfers that appear unusual, considering the location of the branch.

15- The undertaking of e-banking operations that appear unusual.

b- Monitor the accounts opened and operations carried out by clients, through the units and divisions mentioned in Article 11 of these Regulations, by using specialized software programs for retrieving (daily, weekly, monthly, annual) reports on the accounts and operations to which the above-mentioned indicators apply.

Article 9 bis¹: Banks and financial institutions must:

First: Adopt a risk-based approach to classify clients and transactions in accordance with the level of risks, low, medium and high, while taking into account, for indicative purposes but not restrictively, the following risks:

1- Customer risks:

- a. Customers whose professional activities depend mainly on cash (money exchange, gold and precious stones dealers, restaurants and night-clubs, real estate companies, car dealers...).
- b. Politically exposed foreigners who hold or have held important official positions.
- c. Offshore companies
- d. Companies established in countries known to be tax havens
- e. Non face-to-face customers
- f. Customers dealing only through intermediaries
- g. Customers dealing through fiduciary contracts or trusts.
- h. Companies with a capital totally or partly constituted of bearer shares

2- Country risks:

- a. The strictness of laws on fighting money laundering and terrorism financing, and the efficiency of the regulatory and judiciary authorities in charge of their implementation.
- b. The existence of banking secrecy
- c. The situation of the country regarding corruption and organized crime

3- Service Risks:

- a. Private Banking
- b. Payable Through Accounts, which are accounts opened by banks and financial institutions at other banks and put at their customers' disposal to be used directly or through subaccounts.
- c. Electronic banking

¹- This Article was added by Article 3 of Intermediate Decision No 10147 of May 9, 2009 (Intermediate Circular No 190).

Second: Establish risk-based control measures and procedures, and adopt at least, according to risk scoring of customers and transactions classified as high risk, the following measures and procedures:

- 1- To raise awareness concerning strict control as a priority.
- 2- To obtain more detailed information about clients (Increased KYC Levels).
- 3- To obtain, according to risk levels, the necessary administrative approvals, which allow dealing with customers and executing transactions.
- 4- To undertake periodic reviews of relationships with customers.
- 5- To make continuous peer comparisons.

Third: Take into account the period of time needed for establishing relationships with customers and the proper way to deal with them.

Fourth: Use specialized software for performing controls according to the adopted classification.

Fifth: Adopt, based on the obligations stipulated in this Article, a special policy for classifying risks and determining control procedures to be applied by the concerned parties.

Section IV- Committees and administrative units in charge of the control of operations for fighting money laundering, and their tasks

Article 10:

All banks and financial institutions operating in Lebanon must:

- 1- Establish a special committee consisting of the Director General, the Risk Director, the Operations Director, the Treasury Director, the Branches Director, and the person in charge of the Unit mentioned in Paragraph 2 below.
- 2- Establish a unit to ascertain compliance with the laws, regulations and procedures in force, hereafter named "the Compliance Unit".
- 3- Appoint in each branch of the bank/financial institution an officer responsible for the control of operations.

Article 11:

As far as each is concerned, the committees and administrative units established at the banks and financial institutions, as well as other concerned officials at the bank/financial institution, must comply with the procedures aiming at controlling, fighting and preventing money laundering operations. These procedures are, for indicative purposes but not restrictively, defined as follows:

1- Regarding the Special Committee mentioned in Paragraph 1 of Article 10:

- a- To prepare a procedure guide for implementing the provisions of the Law on Fighting Money Laundering and the provisions of these Regulations.
- b- To prepare a form for client recognition (KYC: Know Your Customer) and for controlling financial and banking operations to avoid involvement in money laundering operations. This form should include basic information about clients, in particular those specified in Article 3 of these Regulations, for indicative purposes but not restrictively.
- c- To ascertain the proper implementation and effectiveness of the procedures and regulations on fighting money laundering operations.
- d- To review periodically the above-mentioned procedures and regulations, and to develop them in line with up-to-date methods of fighting money laundering.
- e- To prepare a staff training program on the methods of controlling financial and banking operations, in accordance with the control procedure guide, and with other legal and regulatory texts in force.
- f- To review the reports submitted by the “Compliance Unit” and the “Internal Audit Unit” on suspicious operations and high-risk accounts, regarding cash deposit and withdrawal operations, transfer operations, and the link between these operations and economic activities.
- g- To comment on the reports mentioned in paragraph (f) above, and to submit comments to the Board of Directors.
- h- To monitor, when the operation exceeds ten thousand US dollars or its equivalent, the adequacy of exemption procedures whereby some well-known clients are exempted from filling the cash transaction slip, and also to determine the exemption ceiling and to modify it according to developments in the client's economic situation.

2- Regarding the Compliance Unit:

- a- To ascertain that concerned officers are complying with the procedure guide on the implementation of legal and regulatory texts for fighting money laundering, and that the KYC forms are properly filled.
- b- To review periodically the effectiveness of the procedures and regulations on fighting money laundering, and to propose amendments to the special committee mentioned in Paragraph 1 of Article 10, for taking appropriate decisions with the approval of Management.
- c- To review the daily/weekly reports received from the concerned departments and branches about cash operations and fund transfers.
- d- To monitor, on a consolidated basis, the client's accounts and operations (in and off balance sheet) at the Head Office and at all branches in Lebanon and abroad.
- e- To investigate suspicious operations, and to prepare periodical (at least, monthly) reports on operations that appear to be involving suspicious operations risks and submit them to the “special committee”.

3- Regarding Internal Audit:

- a- To audit cash operations, transfers, and account movements.

- b- To ascertain that specialized branches and sections are complying with the procedure guide on the implementation of legal and regulatory texts for fighting money laundering, and that the KYC forms are properly filled.
 - c- To report discrepancies to the appointed auditor, through periodical reports.
 - d- To inform the "Compliance Unit" through reports about the internal audit procedures mentioned in paragraphs (a), (b) and (c) above, and about any operation that implies suspicious operation risks.
- 4- Regarding the Officer responsible for operations control at the branch, either the director of the branch or its operations manager:
- a- To ascertain that the branch's employees are complying with the procedure guide on the implementation of legal and regulatory texts for fighting money laundering, and that the KYC forms are properly filled.
 - b- To control cash operations, transfers, and any other account-related operations, in particular those carried out through ATMs, and all other operations carried out electronically (non face-to-face banking).
 - c- To inform the Compliance Unit about any suspicious operations, and about the extent of compliance by the branch with the required procedures.
- 5- Regarding the Transfers Section Chief:
- a- To verify transfers credited to clients' accounts, particularly electronic transfers that do not include the name of the ordering customer, that exceed a specified amount, and do not follow a usual pattern, in view of the nature and size of the client's activities. Also, to verify the accounts from which recurrent or unusual transfers are made, and to ascertain the integrity of these transfers in relation to the veracity of their sources.
 - b- To report to the Compliance Unit, through the officer responsible for operations control at the branch, any doubtful transfer that may involve suspicious money laundering operations.
- 6- Regarding the Cashier:
- a- To require from clients, except from those exempted, to fill and sign a cash transaction slip (CTS), which must include the amount involved, the source and destination of funds, when making a cash deposit exceeding ten thousand US dollars or the equivalent, or when carrying out multiple operations involving lower amounts but totaling more than USD 10,000 or the equivalent.
 - b- To prepare special tables for operations that exceed the ceiling specified for clients exempted from filling the cash transaction slip, and to take the necessary technical measures to safeguard these tables, in order to make them available, on request, to internal audit officers or bank auditors, or to the Special Investigation Commission.
 - c- To report to the Compliance Unit, through the officer responsible for operations control at the branch, any doubtful cash deposit that may involve money laundering operations.

7- Regarding the Check Section Chief:

- a- To give caution and attention to checks endorsed to a third party and to bank checks that are not deposited by the first beneficiary, as well as to traveler's checks and checks issued by institutions in foreign countries, in addition to those in which the identity of the account holder is not specified.
- b- To report to the Compliance Unit, through the officer responsible for operations control at the branch, any check deemed suspicious.
- c- To make sure that checks are not credited to clients' accounts before being effectively collected from the issuing banks.

8- Regarding the Branch Director:

- a- To perform, when necessary, the functions of the officer responsible for operations control at the branch.
- b- To review account opening operations, to approve the exemption of certain clients from filling cash transaction slips, and to determine the ceilings of exemption, based on relevant criteria. The branch director must also submit the names of exempted clients and the ceilings of exemption to the "special committee" for consideration.
- c- To coordinate with the Credit Director concerning debit accounts, and with the Branches Director concerning credit accounts.
- d- To make personally or to entrust the Branch Accounts Officer with making periodical visits to debtor clients to take cognizance of their business and to prepare reports about creditor and debtor clients when having doubts that movements in their accounts may conceal suspicious money laundering operations, and to submit copies of these reports to the Compliance Unit.

Section V- Final Provisions

Article 12:

Each bank/financial institution must:

- 1- Establish, on money laundering operations, a computerized central archive of collected information that would include, for indicative purposes but not restrictively, the names circulated by the Special Investigation Commission, and those of holders of doubtful accounts reported by the bank/financial institution itself. The latter must also notify the SIC about any account opened subsequently by any of these persons, whether directly, indirectly, or by proxy.
- 2- Ensure an ongoing training of their staff and the participation of the concerned officers and those responsible for training in relevant seminars, workshops and lectures, so that they may keep abreast of money laundering-fighting methods.
- 3- Not close any suspicious account before consulting with the SIC.
- 4- Keep a special record of persons who open or activate accounts by proxy.
- 5- Require, for recruitment, the highest standards of honesty and integrity.

- 6- Instruct their staff that, subject to liability, they must refrain from notifying clients when the SIC proceeds to investigate or audit their accounts, until the SIC makes a decision on lifting banking secrecy on the said accounts and notifying the concerned clients.
- 7- Inform their branches operating abroad that they must, as a minimum, apply the procedures mentioned in these Regulations, provided they are not incompatible with the laws and rules of the host country.
- 8- When enlisting the help of intermediaries such as brokers and introducers, to deal only with those who meet the criteria adopted by banks and financial institutions in dealing with their clients.

Article 13:

The Auditor of the bank/financial institution must:

- 1- Review the internal audit procedures for ascertaining compliance by the bank/ financial institution with the provisions of the Law and of these Regulations. In this respect, the Auditor shall prepare an annual report to be submitted to the Board of directors of the bank/financial institution, to the Governor of the Banque du Liban, and to the Banking Control Commission. In addition to the audit results and to the auditor's propositions to enhance operation control, the said report must include detailed information about the verification of compliance by the bank/financial institution, as far as each is concerned and as a minimum, with the obligations hereafter mentioned for indicative purposes but not restrictively:
 - a- To comply with the provisions of Articles 3, 4, 6, 7, 10, 11, and 12 of these Regulations.
 - b- To fill the KYC forms.
 - c- To adopt a policy and written procedures concerning the acceptance and opening of new clients' accounts.
 - d- To enquire about the source of received funds and their final destination, and about the reasons of cash operations, as specified in the Law on fighting money laundering and in these Regulations; to set ceilings for cash deposits and withdrawals, and for transfers from abroad that must be given due diligence; and to adopt deposit forms that show the source of deposited funds when a deposit or the total of several deposits exceed the specified ceiling.
 - e- To prepare periodical reports (every quarter, at least) on the movement of cash deposit and withdrawal operations, and on transfers to clients' accounts. These reports should be reviewed by management officers and by the internal audit unit.
 - f- To include, in the adopted internal audit procedures, specific measures for reviewing compliance with the said procedures.
- 2- To report immediately to the Governor of Banque du Liban, in his capacity as chairman of the aforementioned Special Investigation Commission, any violation of the provisions of these Regulations.