

[Extract from the Official Gazette-Number 27-June 22, 2000]

LAW No. 234 of June 10, 2000
On Regulating the Financial Intermediation Profession

The Parliament has adopted, and

The President of the Republic is promulgating the text of the following Law:

Single Article

The draft law transmitted by Decree 1154 of August 25, 1999, and aiming at regulating the financial intermediation profession, is being adopted as amended by the Finance and Budget Commission.

This Law shall become effective upon its publication in the Official Gazette.

Baabda, June 10, 2000
Signed: Emile Lahoud

Promulgated by the President of the Republic
The President of the Council of Ministers
Signed: Salim Al-Hoss

The President of the Council of Ministers
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Article 1

Lebanese joint-stock companies and the branches of foreign financial intermediation institutions whose main object is to undertake financial intermediation activities, as specified in Article 2 of this Law, are considered financial intermediation institutions.

The professional undertaking of financial intermediation activities in Lebanon is restricted to banks and financial institutions registered with the Banque du Liban, and to financial intermediation institutions that meet the legal requirements stipulated by this Law.

Article 2

The activities of financial intermediation institutions include the following operations that they undertake in the regular course of their business, for their own account or on behalf of their clients:

- 1- Spot, term, future, option and swap transactions, and transactions on derivatives or structured financial instruments concerning:

- Stocks and all other financial instruments and securities, including debt instruments and government bonds.
 - Commercial papers.
 - Currencies.
 - Precious metals.
 - Commodities.
- 2- Operations on all negotiable financial instruments.
- 3- Portfolio management operations.

In order to carry out their activities, financial intermediation institutions have the right to undertake other operations that are complementary to their main objective. They are however prohibited from undertaking any commercial or industrial activity or any activity unrelated to financial intermediation. The Banque du Liban will issue regulations and instructions regarding the implementation of this Law, to determine the definition and meaning of the expressions specified in this Article, along with the conditions and limits for the implementation of the provisions of this Article to banks and financial institutions.

Article 3

Revenues and profits generated by operations specified in Article 2 are exempted from the tax on the revenues of movable capital stipulated in Title III of the Income Tax Law¹. However, they remain taxable under the provisions of Title I of the said Law, as profits made by any business enterprise in the course of its professional activities.

Article 4

A financial intermediation institution must obtain a prior license from the Banque du Liban before starting its activities. The Central Council of the Banque du Liban grants such a license to the extent it deems serving the public interest. In this respect, the Council has a discretionary power to grant or refuse the license.

Article 5

¹2- The shares of a Lebanese financial intermediation institution must all be nominal.

2- A prior authorization by the Banque du Liban is required for:

- a- Any assignment of shares of a financial intermediation institution that leads, directly or indirectly, to the acquisition by a person of more than 10% (ten percent) of total shares. The transfer of shares by inheritance, by assignment between spouses or between ascendants and descendants, is not considered as an assignment in the sense of this paragraph.
- b- Any intended amendment to the bylaws of the financial intermediation institution.

¹ See Article 51 of Law 497 of January 30, 2003 (the 2003 Budget Law) on the amendment of Title III of the Income Tax Law (Decree 144/59 and its amendments).

- See also the Minister of Finance's Decision No 403/1 of March 18, 2003 on the detailed implementation of Article 51 of Law 497/2003 of January 30, 2003 (the 2003 Budget).

² This paragraph was amended pursuant to Law 745 of May 15, 2006.

- c- The opening of a branch outside Lebanon by a Lebanese financial intermediation institution or the opening within Lebanon of a new branch by a Lebanese or foreign financial intermediation institution and the relocation of a branch.

Article 6

Financial intermediation institutions must apply for registration with the Banque du Liban. Registration applications must meet the legal requirements to be accepted.

The Banque du Liban shall publish the List of the Registered Financial Intermediation Institutions in accordance with the provisions governing banks of Article 136 of the Code of Money and Credit.

Any institution not included in the List of Financial Intermediation Institutions is prohibited from undertaking financial intermediation activities or from using the expressions "Financial Intermediation Institution", "Owner of a Financial Intermediation Institution", "Financial Intermediary", or any other similar expression in any language, whether in its corporate name, in its objective, or in its advertisements. It is also prohibited from using these expressions in a manner that might mislead the public about its nature.

A financial intermediation institution must indicate its registration number on the List of Financial Intermediation Institutions under the same conditions and on the same documents as those required by the registration procedure of the Commercial Register.

Article 7

The Central Council of the Banque du Liban shall determine the minimum capital of a Lebanese financial intermediation institution and the minimum capital to be allocated to the branch of a foreign financial intermediation institution authorized to operate in Lebanon.

In both cases, the Central Council may, at any time, modify the required minimum capital and set a time limit to allow existing financial intermediation institutions to regularize their status accordingly.

The capital of the Lebanese financial intermediation institution, or that of the branch of a foreign financial intermediation institution, must be paid up in full in a single cash payment at the Banque du Liban.

Article 8

The Banque du Liban shall determine the valuation principles for assets that constitute a counterpart to the shareholders' equity of a financial intermediation institution.

It may also require the financial intermediation institution to prove, at any time, that its assets exceed its liabilities by, at least, an amount equivalent to its shareholders' equity.

When incurring losses, the financial intermediation institution must, within a time limit of six months, reconstitute its capital, freeze a cash reserve at the Banque du Liban upon request of the latter, or reduce its capital to no less than the required minimum stipulated by Article 7 above.

The provisions of this Article shall apply to all financial intermediation institutions operating in Lebanon.

Article 9

The Banque du Liban may approve, according to conditions it sets, the opening at the BDL of deposit accounts in the name of financial intermediation institutions.

Article 10

The Banque du Liban is entitled to issue recommendations and instructions and to use other means for ensuring the proper conduct of business by financial intermediation institutions. In particular, these institutions must³ :

- 1- Submit to the Banque du Liban all required information, documents, statistics and accounting statements in accordance with the conditions, forms and time limits set by the Banque du Liban .
- 2- Comply with the recommendations and instructions issued by the Banque du Liban under the provisions of this Law and those of Article 1 of Law 520 of June 6, 1996, as well as with the regulatory measures and procedures the Banque du Liban may impose on financial intermediation institutions for the protection of their clients.

Article 11

All financial intermediation institutions operating in Lebanon must:

- 1- Appoint auditors to control their operations in accordance with the provisions applicable to banks.
- 2- Provide their clients, personally and periodically, with information on their accounts, and with account statements.
- 3- Publish, regarding their operations and accounts, periodical statements and balance sheets that reflect their real situation.
- 4- Explicitly request their correspondents, or those acting upon their instructions, to provide the concerned clients in a direct manner (not through the financial intermediation institutions themselves) with those documents specified in Paragraph 2 of this Article.

Article 12

Financial intermediation institutions must carry out and record their operations in a clear and precise manner, and the following information should be readily available in detail on a daily basis and at any time:

- a-Concerning operations conducted on behalf of their clients:
- 1- The full name and address of each client, and the personal number allocated to him/her.
 - 2- The exact execution date of each operation and its serial number.
 - 3- The quantity, nature, price and serial number of financial instruments purchased or sold.

³ See Basic Decision No 7551 of March 30, 2000 (Basic Circular No 1 to Financial Intermediation Institutions) on Licensing Documents, Annual Statements and Miscellaneous Provisions related to financial intermediation institutions.

Each client should have a personal reference number that, in no circumstances, could be given to another client, even if the relationship between the client in question and the financial intermediation institution has been terminated. No client is to receive more than one reference number.

b- Concerning operations conducted for their own account:

The exact execution date of each operation and its serial number, in addition to the quantity, nature, price and serial number of financial instruments purchased or sold.

Article 13

- 1- Financial intermediation institutions must comply with the following:
 - a- Inform their clients of the risks involved in the transactions on derivatives or structured financial instruments.
 - b- Inform their clients, while acting on their behalf, about any potential conflict of interests that might arise between both parties due to the operation in question.
 - c- Commit to protect the confidentiality of information regarding their clients' accounts and the operations conducted on behalf of these clients, and also commit not to use such information for their own benefit or the benefit of any other person.
 - d- Refrain, while conducting financial intermediation operations, from using any information not officially announced or published, that was obtained from clients or any other source.
- 2- The provisions of this Article shall also apply to all staff of financial intermediation institutions.

Article 14

- 1- Each financial intermediation institution must keep for its clients the following accounts:
 - a- An account or more for securities where such securities are recorded for each client, except those on which the financial intermediation institution has a right linked to a lending margin for the purpose of conducting the operations mentioned in Article 2 of this Law.
 - b- A bank account or more to record the funds held by each client.
- 2- The securities and funds deposited and recorded in the aforementioned accounts are not included in the assets belonging to the financial intermediation institution.
- 3- The records and the bank accounts of each client kept according to the provisions of this Article must clearly show the characteristics of the securities and the details of the funds belonging to each client.

Article 15

The Banking Control Commission shall control Lebanese financial intermediation institutions and the branches of foreign financial intermediation institutions operating in Lebanon under the same rules and regulations governing banks or those set by the Banque du Liban.

Article 16

Any Lebanese financial intermediation institution or any branch of a foreign financial intermediation institution operating in Lebanon, wishing to cease its activities, must notify the

Banque du Liban. The Central Council of the Banque du Liban may compel such institution to fulfil all its obligations before permanently ceasing its activities in Lebanon.

Article 17

Financial intermediation institutions operating in Lebanon are prohibited from undertaking the following activities:

- 1- To receive deposits, as specified in Article 125 of the Code of Money and Credit, and to lend any party, as specified in Articles 121 and 178 of the said Code. They may, however, grant facilities related to the operations they carry out, provided the conditions of these facilities are stated in a written, clear and detailed agreement.
- 2- To open with their clients joint accounts of financial instruments and rights.
- 3- To consolidate financial instruments and rights deposited in clients' accounts opened with them or with third parties, except when explicitly authorized in writing by the concerned clients.
- 4- To operate on behalf of their clients, unless a written and clear contract is signed with those clients.

Such contract should include at least the following elements, otherwise it will be void:

- A clear indication that the contract is drafted under the provisions of this Law.
- The identities and addresses of the contracting parties.
- The type of the management contract (discretionary or restricted).
- The beneficiary party.
- The address or the mailing address to which account statements are to be sent periodically.
- A clear identification of the nature and category of operations or investments that the financial intermediation institution is authorized or unauthorized to carry out on behalf of the client.
- The duration of the contract, with an explicit mention of both parties' right to terminate the said contract at any time, while preserving the results of operations performed or being performed.
- Fees, commissions and expenses to be collected.

Article 18

Financial intermediation institutions may obtain funds from partners or shareholders or through the issuance of debt instruments under the provisions of Article 122 et seq. of the Code of Commerce, and Legislative Decree 54 of June 16, 1977, relating to bonds convertible into stocks.

Article 19

The provisions of Article 127 of the Code of Money and Credit shall apply to financial intermediation institutions.

Article 20

The Governor of the Banque du Liban may impose on a financial intermediation institution operating in Lebanon delay penalties not exceeding ten times the minimum monthly salary for each day of delay, when the said institution does not comply, within the time limits, with the obligations of Article 6, Article 7 (Par.2), and Article 11 of this Law, or when it hampers the control activities of the Banque du Liban as specified in Article 15 of this Law. However,

these penalties do not impede the enforcement of other penal or administrative sanctions that may be applicable to the violating institution.

When delay penalties are not paid on time, the Banque du Liban shall collect a penalty interest at the rate applied to the one-year Treasury bills.

Article 21

The financial intermediation institution shall be struck off the List mentioned in Article 6, paragraph 2, of this Law in any of the following cases:

- a- If the institution is being liquidated, either voluntarily or pursuant to Article 23 of this Law.
- b- If it has been declared bankrupt.
- c- If it does not effectively start its activities within six months from the date of its registration on the List of Financial Intermediation Institutions.
- d- If it stops its activities for six successive months.
- e- If it does not reconstitute its capital or does not increase it to the required minimum.

In cases (a) and (b), the financial intermediation institution is struck off the List by decision of the Governor of the Banque du Liban, and in the other cases by decision of the Higher Banking Commission established at the Banque du Liban.

Article 22

When struck off the above-mentioned List, the financial intermediation institution shall be automatically prohibited from carrying out financial intermediation activities and shall also be dissolved and liquidated in accordance with the laws in force.

A financial intermediation institution under liquidation may, for the specific purpose of liquidation, continue to use its designation as a “financial intermediation institution”, provided the expression "under liquidation" appears clearly after its corporate name.

Article 23

- 1- If the Banque du Liban finds that the financial intermediation institution has violated the provisions of its bylaws, those of the Code of Commerce, of this Law or of the laws in force, or the measures, recommendations or instructions imposed by the Banque du Liban pursuant to the powers conferred by the provisions of this Law and those of Article 1 of Law 520 of June 6, 1996; or if it finds that the institution has submitted incomplete or inaccurate statements or information, any of the following administrative sanctions may be imposed:
 - a- Issuing a warning.
 - b- Prohibiting the institution from undertaking specific operations or imposing other limitations or restrictions on its professional activities.
 - c- Appointing a controller at the expense of the concerned financial intermediation institution.
 - d- Striking the institution off the List of Financial Intermediation Institutions.

The administrative sanction stipulated in Paragraph (a) of this Article is imposed by decision of the Governor of the Banque du Liban, while the other sanctions are

imposed by decision of the Higher Banking Commission established within the Banque du Liban.

However, these sanctions do not impede the enforcement of other applicable penalties and sanctions on the violating institution.

- 2- The decisions of the Higher Banking Commission referred to in this Article shall not be subjected to any ordinary or extraordinary form of administrative or judicial review.

Article 24:

Any person who violates the provisions of Articles 1, 4, 12, 13, 14, and 17 of this Law shall be punishable by imprisonment for a period of six months to three years and/or by a fine not exceeding ten times the minimum annual salary.

Article 25

Lebanese financial intermediation institutions and the branches of foreign financial intermediation institutions operating in Lebanon must, within six months from the issuing of this Law, regularize their situation with the provisions of the said Law, and specifically obtain the license stipulated in Article 4 above.

Article 26

This Law shall enter into force upon its publication in the Official Gazette.