



**Basic Circular No 141**

**Addressed to Banks**

Attached is a copy of Basic Decision No 12670 of September 18, 2017 relating to the Recovery Plan.

Beirut, September 18, 2017

The Governor of Banque du Liban

Riad Toufic Salamé

## **Basic Decision No 12670**

### **Recovery Plan**

**The Governor of Banque du Liban,**

**Pursuant to the Code of Money and Credit, notably Articles 70 and 174 thereof,**

**Consistent with the Key Attributes of Effective Resolution Regimes for Financial Institutions adopted by the Financial Stability Board, particularly Key Attribute 11.5 relating to the Recovery Plan, and**

**Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of September 13, 2017,**

**Decides the following:**

#### **Article 1:**

Lebanese banks are requested to prepare a recovery plan (the “Recovery Plan”) to be approved by their Board of Directors in order to restore stability to their financial situation and to cope with any future difficulties in times of crisis. This plan must be written and adapted to the bank’s size, to its level of expansion abroad, and to the degree of complexity of its activities and operations. It must also be updated annually with the Board of Directors’ approval.

#### **Article 2:**

The Recovery Plan must contain, at least, the following key elements:

- 1- The Recovery Plan internal governance, which includes:
  - The parties responsible for preparing, managing, and implementing the Recovery plan, and those responsible for monitoring the indicators that necessitate the Recovery Plan’s activation.
  - The mechanism of communication between the Recovery Plan’s various stakeholders.
- 2- The Recovery Plan indicators, which signal any deviation from the bank’s business plan, and which may include indicators of quantitative and qualitative nature, provided the following minimal conditions are met:
  - To take into account the bank’s various financial soundness indicators, including liquidity indicators, capital indicators, asset quality indicators, and profitability indicators, in addition to market-based indicators and macroeconomic indicators.
  - To determine the set of early warning indicators that the bank will adopt to identify emerging risks.
  - To use progressive metrics in relation to the Recovery Plan indicators, until the latter reach a threshold that triggers the mandatory activation of the Plan.
  - To consider forward-looking prospects when determining the calibration of the Recovery Plan indicators.
- 3- The stress tests adopted to determine the recovery options, and which should contain:
  - Systemic scenarios, scenarios specific to each bank (idiosyncratic), and both together.
  - Stringent assumptions that prompt the activation of the Recovery Plan.

- 4- The recovery options for each of the scenarios adopted in the stress tests, provided that:
- Each option can be implemented in a way that immediately restores stability to the bank's financial situation within a time limit specified by the Plan.
  - The impact of each option on the bank's financial situation, notably its own funds, liquidity, and viability, is shown.

**Article 3:**

The Recovery Plan shall be prepared and applied at two different levels:

- The Lebanese bank.
- Each main subsidiary of the Lebanese bank abroad, including its branches overseas.

Taking into consideration:

- The interconnectedness between the group's various subsidiaries, while showing the impact of stress tests and recovery options on the financial situation of the banking group as a whole.
- The relevant laws and regulations in the host country, whenever preparing the Recovery Plan pertaining to subsidiaries and branches that are located overseas.

**Article 4:**

Lebanese banks must promptly provide the Banking Control Commission with their adopted Recovery Plan, and any amendment thereto.

Branches of foreign banks operating in Lebanon must promptly provide the Banking Control Commission with the Recovery Plan they implement, as prepared with the assistance of their head office abroad, and with any amendment thereto.

**Article 5:**

The Banking Control Commission shall review and assess the Recovery Plan submitted by Lebanese banks and the branches of foreign banks operating in Lebanon, and shall ask them to make the necessary amendments in case they detect any deficiencies and/or weaknesses.

**Article 6:**

The Banking Control Commission shall issue the texts needed to implement this Decision.

**Article 7:**

Banks are granted a six-month time limit from the issuance date of this Decision to prepare their first Recovery Plan in accordance with the requirements of this Decision and the implementation directives issued by the Banking Control Commission.

**Article 8:**

This Decision shall enter into force upon its issuance.

**Article 9:**

This Decision shall be published in the Official Gazette.

Beirut, September 18, 2017

The Governor of Banque du Liban

Riad Toufic Salamé