



Legal and Regulatory Infrastructure

Banque du Liban
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Introduction

- BDL:
 - Ensures Monetary and Financial Stability.
 - Soundness and efficiency of Banking sector.
- BDL's 2 main objectives:
 - Develop the emerging payment systems .
 - Maintain and improve the stability/security/performance of payment systems in a multi-currency system.
- Sebil and the need for modernizing current laws and regulations

Topics of Discussion

- The Lebanese legal banking/ financial infrastructure
- The legislation needed to support Sebil
- What has been already covered by recent laws and regulations
- The areas where assistance is required

The Lebanese Legal Banking/

Financial Infrastructure

Commercial Code ●

*Legal framework for commercial activities in general.(neg. inst.,checks...)

Code of Money and Credit ●

*Governs the activities of the Central Bank and those of the financial and banking sector.

Banking Secrecy Law(1956)

All Lebanese banks/branches of foreign banks must comply. ●

Covers all information related to regular clients as well as one-time transactions namely client names, assets, bank account numbers... ●

Exchange of debtor account information permissible among banks for safety and risk management reasons through the CDR at BDL. ●

Fighting Money Laundering (2001)

- In conjunction with Criminal Code
- covers money laundering through different illegal acts
- Mandatory by financial companies /others(e.g.insurance,jewelry,...)
- committee Reporting to Special investigation
- SIC independent vehicle
- Investigate local and international requests/reports

Creation of a central depository :Midclear

- Custodian ---- financial instruments
- Executes the clearing and settlement of securities transactions(mandatory for securities. Listed on BSE)
- Trading ----by book-entry(dematerialization)
- Majority owned by BDL
- Legal entity: Corporation
- Law authorizing the opening of securities accounts
- Banks/financial institutions/brokerage firms may open accounts for securities in bearer form

Establishment & M / A of Banks

Exclusive Jurisdiction & Supervision: .1

BDL –

BCC –

SIC –

Establishment subject to : .2

Gen. dispositions : CMC, CC, BSL, Law no.308 –

Bank's shares Issuing & Trading (01)

Sp. dispositions : Legislative Decree no.50 on –
MT/ LT Credit Banks (83)

Establishment & M / A of Banks *(Continued...)*

Required Process :

- a - Licensing GC
- b - Capital Payment
- c - Commercial Registrar
- d - Constituent Assembly
- e - List of Banks

Required Reserves :

Co.Bks: 13% Cash Ratio & 40% TB Ratio of deposits –

Sp.Bks: No Required Reserve –

Legal Periodic Reserves :

For both Bks: 10% of Net Annual Profit –

Only for Sp Bks : +0.2% Assets & Off-BS –

Establishment & M / A of Banks *(Continued...)*

M / A : .3

- All of the mentioned regulations
- Law no.192 to facilitate M / A expired on 14/1/03, renewal in discussion.

Law #75/99 Intellectual property

- Great improvement in promoting IP
- Protect I intellectual & artistic property rights (innovation required)
- Lebanon joined Berne convention
- WIPO member 1986

Fiduciary Operations

Banks/Fin.Inst. Act as fiduciaries ●

Capital: 10b.LL –banks / 5b.LL ●

Written K(names/profession/resp./duration) ●

No commingling/acct. carried off-balance
sheet ●

Law #133

Modification of the code of money and credit and addition of more duties and responsibilities to the role of BDL in the area of payment systems (payment cards, transfers, e-payments, clearing and settlement of payment instruments and securities...)

Essential for bdl-----more power to regulate and develop these areas.

Implicitly covering the security related to these areas as BDL initially has the power to ensure the security of the whole banking/ financial sector.(Dr. Caprioli report)

Clearing and settlement of checks

1st preliminary session: ●

New checks: –

- | | | |
|--|--|----|
| currency) | Exchange of checks(sorted by drawee bank / | .1 |
| | + checklist (value / #of checks ----each bank) | |
| | + attached checks | |
| | Delivery of diskettes and printed statement to BDL | .2 |
| (all information describing checks to be collected from each | bank) | |
| | BDL “books” transactions on each bank | .3 |
| | BDL----statement with net positions to each bank | .4 |
| Each bank representative takes checks drawn on him to | confirm if funds are available | .5 |
| day | If dishonored-----return to payee bank next | .6 |
| | If honored-----final next day | .7 |

Clearing and settlement of checks *(Continued...)*

2nd session (next day) ●

Exchange only returned checks .1

Final settlement via accounts opened at BDL .2
(after deduction of dishonored ones)

NB clearinghouse at BDL branches and
headquarter. ●

Payment Transfer Systems

- Inter-accounts at BDL ●
- BDL-----accounts abroad ●
- via SWIFT messages/paper+manual ●
transmission
- FIFO ●

Credit card Regulations

@ BDL circular regulating the installation of ATMs

- Number of ATMs installed outside a bank's doors should not exceed the number of the bank's branches in addition to its head office;
- ATMs should accept all types of cards accepted by the BDL, issued domestically and internationally;
- BDL 's list of all accepted domestic and international cards;

Credit card Regulations

(Continued...)

- ATMs should be linked to networks connected to all other networks for domestic transactions;
- Clearing and settlement relating to the use of cards issued domestically and internationally and used in Lebanon should be performed domestically - ie without passing through international networks;
- Use of all cards issued should be subject to the agreed arbitration procedure to settle any disputes .

Credit card Regulations

(Continued...)

@ Electronic clearinghouse for for the clearing and settlement of ATM transactions executed locally by use of locally issued credit cards

1st level : 3 ATM switches in Lebanon clear transactions interbanks –

2nd level: at BDL –

a) Settle (debit/credit) banks' accounts based on the results of level 1. •

B) Clear and settle account of ATM switches. •

Mandatory for ATM switches and their members to clear and settle via this e-clearinghouse –

“Centrale des Chèques Impayés”

- Administered by the BDL. ●
- CCI centralizes all information relating to check payment incidents. ●
- Bank must consult CCI before issuing a new customer his first checkbook. ●
- Banks require customers to honor a check w/o funds within 15 days. ●
- If he doesn't--- customer listed by the CCI at the BDL . ●
- Two conditions for cancellation from blacklist ●
- Pay check and inform CCI .1

CENTRALE DES RISQUES

Service at “Bank’s Department” along w. CCI .1

De Facto membership: Registered FI & Banks. Expenses shared according to BDL decision .2

All info benefit of the BSL: Absolute Secrecy Disclosure only if : .3

Request by members or clients and, (a

Required doc. and, (b

c) Both Client & BDL consent to uncover Secrecy (c

Process: .4

Required monthly statements by banks of all commitments & guarantees obtained by each of its clients, (a

Creation & Management by CDR of an Identification & Financial Assessment file for each Bank & Client (b

BDL circular regulating e-banking

E-banking based on norms of transparency and integrity ●

Requirements: ●

Banks and other registered institutions (a)
(ex. Financial inst.) -----prior notification

other companies offering e-banking services to the public (b)
-----prior BDL authorization

E-transfers subject to the following requirements: ●

Compliance with professional secrecy; (a)

Insurance coverage for transactions; (b)

Efficient system (c)

“Arab Clearing House”

Settle stock operations between Arab financial markets as well as with other financial markets . ●

Expand activities to include bonds and other financial instruments ●

The legislation needed to support Sebil

3 utmost important ●

@ Electronic Interchange of Data –

@ Electronic Signatures (PKI) –

@ Data Protection and Privacy –

Sebil Applications/Regulatory Framework ●

@ Reporting –

@ Transactions –

Electronic Data Interchange

- Sebil-----paperless environment
- Facilitate electronic transactions
- Legal recognition of electronic records
- Record not denied legal effect or enforceability solely because electronic form
- contract not denied legal effect or enforceability solely because electronic record was used in its formation.
- If a law requires a record to be in writing, an electronic record satisfies the law (*Dr. Caprioli*).

Electronic Signature

Basis: public key infrastructure ●

secure communications ●

Confidentiality / Integrity / Authenticity / Non-
repudiation ●

If a law requires a signature, an electronic
signature satisfies the law. ●

BDL ●

Root CA-----banks –

Licensing banks -----issue CA –

Banks-----CA-----Customers ●

Sebil applications/regulatory framework

Reporting ●

Unpaid checks –

- modify current regulation
- regular electronic updated reports
- queries via email/automatic response
- e-notification :additional new customers/changes
- unpaid credit cards

Sebil applications/regulatory framework *(Continued...)*

CDR –

Lower limit-----zero •

responses e-addition/deletion/updating/inquiries/ •

e-exchange inter BDL departments •

Balance sheet reporting to different departments –

ATM/POS statistical reports received electronically –

Other periodic reports to legal/statistics/financial departments –

Electronic interchange of information banking & financial sector –

Sebil applications/regulatory framework *(Continued...)*

Transactions ●

Treasury bills –

Auction automated ●

Application process---- connected auction & gov.bond ●
registrar-----hand-free bid

e-payment of gov.utility bills –

Automated clearinghouse rules –

POS/ATM(under discussion/exists) ●

Checks(one single clearinghouse) ●

check imaging ●

default of participants ●

Sebil applications/regulatory framework *(Continued...)*

RTSS ●

Intraday credit –

defaults of banks –

DVP-----Link to Midclear/gov.bonds –

registry/ACH/

Collateral (BDL right of set-off) –

Loss sharing –

What has been already covered by recent laws and regulations ●

E-signature law (parliament) –

Data privacy –

Recognition of e-documents as evidence –

The areas where assistance is required ●

ACH –

RTSS/RTGS-----System to be used/regulation –

Banca d'Italia previous experience esp.payment systems –