

**BANQUE DU LIBAN**

**Intermediate Circular No 253**

**Addressed to Banks**

Attached is a copy of Intermediate Decision No 10706 of April 21, 2011, amending Basic Decision No 9956 of July 21, 2008 on the establishment of the “Audit Committee”, attached to Basic Circular No 118.

Beirut, April 21, 2011

The Governor of Banque du Liban

Riad Toufic Salamé

**BANQUE DU LIBAN**

**Basic Decision No 10706**

**Amending Basic Decision No 9956 of July 21, 2008  
Relating to the Establishment of the “Audit Committee”**

**The Governor of Banque du Liban,**

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

**Pursuant to Basic Decision No 9956 of July 21, 2008 and its amendments, relating to the Establishment of the “Audit Committee”, and**

**Pursuant to the Decision of the Central Council of Banque du Liban (BDL), taken in its meeting of April 13, 2011,**

**Decides the following:**

**Article 1:**

The title of Basic Decision No 9956 of July 21, 2008 is repealed and replaced with the following one:

“Boards of Directors and Boards Committees in Lebanese Banks”.

**Article 2:**

The numbering of Articles 6 and 7 of Basic Decision No 9956 of July 21, 2008 is modified to become Articles 16 and 17, respectively.

**Article 3:**

Articles 1, 2, 3, 4 and 5 of Basic Decision No 9956 of July 21, 2008 are repealed and replaced with the following:

“Article 1: The following expressions shall mean:

- 1- A Board of Directors’ non-executive member: a Board member who has no administrative function in the concerned bank and is entrusted with no executive duties at this bank and/or any of its branches or subsidiaries in Lebanon or abroad, or who fulfills a consultative function for the Senior Management, whether presently or during the two years preceding his/her appointment as a Board member.  
The Board member appointed in any subsidiary abroad is not considered as an executive member under this Decision, if the laws governing him/her in the foreign country do not grant him/her this capacity.
  
- 2- A Board of Directors’ independent member: a Board member who meets the following conditions:
  - Is a non-executive Board member
  - Is not one of the major shareholders who own, directly or indirectly, more than 5% of the bank total shares or voting rights pertaining to these shares, whichever bigger
  - Is independent from any person in the Senior Management of the concerned bank or from its major shareholders, so that no business relationship binds him/her to any of them, whether presently or during the two years preceding his/her appointment as a Board member
  - Is not related by kinship, up to the fourth degree, to any of the major shareholders
  - Is not one of the bank’s debtors

### **First: The Board of Directors**

Article 2:

In order to enhance the Board of Directors’ effectiveness and efficiency, each Lebanese bank must comply with the following:

- 1- Enhance the Board of Directors by electing a sufficient number of Board non-executive and independent members, in order to comply with the requirements of this Decision, particularly in terms of establishing Board committees.
- 2- Set a number of Board non-executive and independent members that exceeds the minimal requirements specified in this Decision, in proportion to the concerned bank’s size, the complexity of its operations and its risk structure (Proportionality principle).

Article 3:

The Board of Directors must convene at least four times a year, with two meetings at least being held in Lebanon.

A detailed written agenda shall be prepared for each meeting, and all the information and reports concerning the questions to be raised shall be provided to the Board members, at least a week before the meeting date. However, the agenda and the said information may be exceptionally notified to the Board members within 48 hours.

In some exceptionally urgent cases, the Board may be convened immediately.

## **Second: The Audit Committee**

### **Article 4:**

The Board of Directors of each Lebanese bank must:

- 1- Establish an Audit Committee which shall be composed at least of three of the Board's non executive members.
- 2- Appoint the Chairman of the Audit Committee, provided the latter is a Board independent member who has modern and practical banking or financial experience in the accounting, financial administration, or auditing field.
- 3- Determine the compensation of the Audit Committee's Chairman and members.

### **Article 5:**

The scope of the Audit Committee's work shall cover the bank in Lebanon and all its branches and subsidiaries in Lebanon and abroad. This Committee shall assist the Board of Directors in fulfilling its duties and supervisory role regarding the requirements of internal control and internal audit stipulated in the relevant regulations and recommendations issued by Banque du Liban and the Banking Control Commission, particularly as regards the following matters:

- 1- Competence and autonomy of the external auditors and of the Internal Audit Unit, specified in Basic Decision No 7737 of December 15, 2000 (hereafter "the Unit").
- 2- Control of financial statements' soundness, and review of the disclosure standards adopted by the bank.
- 3- Efficiency and effectiveness of internal control regulations and procedures.
- 4- Follow-up of the implementation of remedial measures proposed in the reports of the Unit, the control authorities and the external auditors.
- 5- Monitoring the bank's compliance with the regulations and recommendations issued by Banque du Liban and the Banking Control Commission.

### **Article 6:**

The Audit Committee shall, for indicative purposes but not restrictively, perform the following tasks:

#### **1- Regarding the supervision of the Internal Audit activities:**

- (a) Directly oversee the Unit to ascertain that it is autonomous from the Senior Management, performs its tasks objectively, and has the sufficient audit powers and the human and material resources necessary to fulfill its duties.
- (b) Give its opinion concerning the Unit's compensation and submit the relevant recommendation to the Board of Directors.

- (c) Assess the performance of the Unit and the Unit Head, provided the external auditors' remarks and the control authorities' recommendations are taken into consideration.
- (d) Propose to approve the Unit Head's appointment, dismissal or resignation.
- (e) Review the Unit's reports and hold periodic meetings (at least quarterly and when necessary) in the presence of the Unit Head, and also once a year at least without the attendance of any of the Senior Management members, for discussing the reports submitted by the Unit.
- (f) Approve the Unit's Internal Audit Charter, the Audit Cycle, and the Annual Audit Plan specified in Basic Decision No 7737 of December 15, 2000, and any subsequent modification therein.

**2- Regarding Internal Control:**

- (a) Review internal control regulations, policies and procedures, including procedures relating to the fight against money laundering and terrorism financing, and verify their efficiency and effectiveness.
- (b) Hold periodic meetings (at least quarterly and when necessary) with the Senior Management, in order to discuss the internal control efficiency and effectiveness, based on the reports issued by the Unit or the Senior Management or the external auditors or the control authorities, about any weakness in the internal control.
- (c) Verify that the Senior Management tackles the recommendations and remarks relating to any weakness in the internal control.

**3- Regarding the appointment of external auditors and the follow-up of their activities:**

- (a) Give its opinion about external auditors before their appointment, after verifying that they enjoy the human and material resources, the ethical standards, and the necessary scientific and practical expertise to perform audit activities in accordance with the size of the bank and the complexity and diversification of its operations.
- (b) Propose the conditions to be met by external auditors and their annual remunerations.
- (c) Take cognizance of the Audit Plan prepared by external auditors working under contract with the bank, in order to ascertain that it covers all risks to which the bank may be exposed.

- (d) Assess the external auditors' performance, autonomy and objectivity.
- (e) Discuss with the Senior Management and external auditors the financial statements to be published.
- (f) Discuss the main remarks and recommendations included in the external auditors' reports, and report about them to the Board of Directors.
- (g) Determine special audit assignments to be entrusted to external auditors, and determine the conditions of such assignment.
- (h) Meet external auditors at least every six months and whenever necessary, for discussing the results of their activities.

### **Third: Risk Committee**

#### Article 7:

The Board of Director of each Lebanese bank must:

- 1- Establish a Risk Committee which shall be composed at least of three of the Board's members.
- 2- Appoint the Chairman of the Risk Committee, provided the latter is a Board independent member who has modern and practical banking or financial experience in risk assessment and management.
- 3- Determine the compensation of the Risk Committee's Chairman and members.

#### Article 8:

The Risk Committee shall supervise the implementation by the bank of risk management rules, as detailed in the regulations issued and to be issued by Banque du Liban and the Banking Control Commission. The Committee's scope of work shall cover the bank in Lebanon and all its branches and subsidiaries abroad.

### **Fourth: Miscellaneous Provisions**

#### Article 9:

One Board member only may be simultaneously member of both the Audit Committee and the Risk Committee.

The Chairman of the Audit Committee or the Risk Committee may neither delegate his powers to another person nor hold the Chairmanship of both Committees simultaneously.

#### Article 10:

Each of the Audit Committee and Risk Committee shall prepare its own work charter which must clearly determine its work rules and its members' duties and responsibilities and which must be approved by the Board of Directors.

Article 11:

The members of each of the Audit Committee and the Risk Committee must have:

- 1- A sufficient knowledge and a deep understanding of their role and responsibilities and must also, upon their appointment, sign the work charter of the Committee which they belong to.
- 2- Sufficient knowledge, experience and qualifications that are commensurate with the bank's size, the complexity of its operations and the duties to be fulfilled.

Article 12:

Each of the Audit Committee and the Risk Committee shall convene on the following basis:

- quarterly at least, provided two meetings at least are held in Lebanon
- in the presence of three members at least
- no meeting can be held in the absence of the Chairman, but in exceptional cases where the meeting shall be chaired by an independent member.
- Upon convocation by the concerned committee's Chairman. This convocation must include a detailed written agenda for each meeting, along with all the reports concerning the questions to be raised, and it must be sent at least one week before the meeting date. However, the agenda and the said information may be exceptionally notified to the Board members within 48 hours.

In some exceptionally urgent cases, the Board may be convened immediately.

- The concerned Committee's discussions, recommendations and resolutions shall be recorded in detailed and clear minutes to be submitted directly to the Board of Directors. The Banking Control Commission is entitled to take cognizance of such minutes.

Article 13:

Lebanese banks affiliated to other Lebanese banks may be authorized to have an Audit Committee and/or Risk Committee jointly with the parent bank. This authorization is granted at BDL Central Council's discretion and based on the Banking Control Commission's opinion.

Article 14:

The Chairman of the Audit Committee or the Risk Committee may request any Board member or executive director or officer in the bank to attend the Committee meetings that

he/she chairs. He/she may also request the presence of the bank's appointed external auditors, when needed.

**Article 15:**

Lebanese banks must provide the BDL Legal Department and the Banking Control Commission with the following documents:

- 1- The curriculum vitae of each Board member.
- 2- A list with the names of the Chairman and members of the Audit Committee and the Risk Committee.
- 3- The Board of Directors' decision concerning the appointment of the Chairman and members of the Audit Committee and the Risk Committee.
- 4- A copy of the work charter of the Audit Committee and the Risk Committee, approved by the Board of Directors.
- 5- Any change in the information contained in the above-mentioned documents, within a month from the date on which the change occurred."

**Article 4:**

Lebanese banks must submit to the Banking Control Commission, on October 31, 2011, a follow-up report that explains the measures taken to comply with Article 3 of this Decision."

**Article 5:**

This Decision shall enter into force upon its issuance, and banks are granted a one-year time limit starting from the issuance date to comply with all the provisions of Article 3 thereof.

**Article 6:**

This Decision shall be published in the Official Gazette

Beirut, April 21, 2011

The Governor of Banque du Liban

Riad Toufic Salamé