

**BANQUE DU LIBAN**

**Basic Circular No. 128**

**Addressed to Banks and Financial Institutions**

Attached is a copy of Basic Decision No 11323 of January 12, 2013 relating to the establishment of a Compliance Department.

Beirut, January 12, 2013

The Governor of Banque du Liban

Riad Toufic Salamé

**BANQUE DU LIBAN**

**Basic Decision No. 11323**

**Establishment of a Compliance Department**

**The Governor of Banque du Liban,**

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

**Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of January 9, 2013,**

**Decides the following:**

**Article 1:**

Banks and financial institutions operating in Lebanon must establish a Compliance Department that shall be entrusted with the duties detailed in Article 5 of this Decision and shall comprise:

- A Legal Compliance Unit: in charge of identifying and preventing legal risks, and taking the required measures to mitigate these risks
- An AML/CFT Compliance Unit: in charge of verifying compliance with AML/CFT procedures, laws and regulations in force, and whose mission is specified in Basic Circular No 7818 of May 18, 2001.

**Article 2:**

The Compliance Department must meet the following requirements:

- 1- It is an autonomous Department whose work and activities are totally independent from the other activities of the bank or financial institution and any of their units, including the Internal Audit Unit and the Legal Department, provided no executive tasks or any other mission within the bank or financial institution is assigned to the Compliance Department staff.
- 2- Its work rules must clearly specify its role and responsibilities, and include at least the obligations stipulated in Article 5 of this Decision.
- 3- It must be staffed with the proper employees whose number and qualifications are commensurate with the size of the bank or financial institution, the diversification of their activities and the complexity of their operations.
- 4- Its employees must have diversified qualifications and expertise, in line with their mission, along with a thorough understanding of banking and financial laws and regulations.
- 5- It must be granted sufficient powers to be able to perform its duties, particularly in terms of preventing the breach of the laws and regulations in force.

- 6- It must have access to any officer or department in the bank or financial institution, and to the necessary files and information, so as to enable its staff to fulfill their duties properly.
- 7- Its Head must have access to the Senior Management and the Board of Directors.
- 8- Its Head must attend the meetings held by the specialized committees and the Board committees, in order to be informed of the bank or financial institution's strategic planning and prospective activities and products, so as to provide an early counseling.
- 9- Its Head must have direct access to the officers in charge in Banque du Liban, the Banking Control Commission, the Special Investigation Commission (SIC) and any other specialized body, in order to inquire, whenever needed, about any issue relating to compliance with laws and regulations in force.

### **Article 3:**

#### **I- Qualifications of the Head of the Compliance Department:**

The Head of the Compliance Department, who is not the Head of the Legal Department, must be competent and honest, and must have the required academic qualifications, expertise and knowledge in the banking and financial field, along with a sufficient knowledge of banking and financial legislations and laws.

However, the BDL Central Council may authorize banks or financial institutions to appoint the same person as Head of both the Compliance Department and Legal Department, according to the size and need of the bank or financial institution.

The BDL Central Council grants such authorization, if the appointed person has the qualifications and expertise needed to fulfill, simultaneously, the duties entrusted to the Head of the Compliance Department and the Head of the Legal Department.

#### **II- Qualifications of the Head of the Legal Compliance Unit:**

The Head of the Legal Compliance Unit must have the required competences and hold, at least, a law degree; it must also have the required knowledge and expertise in the field of banking and financial laws and legislations in force in Lebanon and in any country hosting the affiliates of the bank or financial institution, in addition to the required knowledge in banking and financial activities.

#### **III- Qualifications of the Head of the AML/CFT Compliance Unit:**

The Head of the AML/CFT Compliance Unit must have the qualifications specified in Basic Decision No 7818 of May 18, 2001.

#### **Article 4:**

The Compliance Department must prepare a work program that fits the size, type and complexity of the operations of the bank or financial institution, and that specifies the work plan set to verify the compliance by the bank or financial institution with the laws and regulations in force.

#### **Article 5:**

Both Units of the Compliance Department must, as far as each is concerned:

- 1- Identify and assess non-compliance risks associated to the activities of the bank or financial institution, particularly non-compliance risks linked to new products and activities.
- 2- Assess the efficiency of the procedures adopted by the bank or financial institution to detect any violation or breach.
- 3- Perform the adequate tests to verify compliance by the bank or financial institution's employees with the policies set by the bank or financial institution.
- 4- Implement the compliance procedures needed to verify compliance with the laws, regulations, procedures and directives issued by Banque du Liban, the Banking Control Commission, the SIC and any other relevant body.
- 5- Implement the compliance procedures needed to control, fight and prevent money laundering and terrorism financing, based on Article 11 of Basic Decision No 7818 of May 18, 2001.
- 6- Prepare an efficient compliance training program for the employees of the bank or financial institution, and prepare also written directives in the form of a compliance guide that instructs the employees on the implementation of the laws and regulations in force.
- 7- Follow up any development in the laws and regulations in force and propose, in line with such development, the necessary amendments to the policies and procedures of the bank or financial institution.
- 8- Advise the Senior Management concerning compliance with the laws and regulations in force, and notify it of the latest developments.
- 9- Verify that the required corrective procedures are applied upon the detection of any violation resulting from non-compliance.
- 10- Submit periodic reports, at least half-yearly, to the Senior Management of the bank or financial institution, concerning the performed assessment and follow-up missions, provided these reports indicate the corrective steps taken, and propose the recommendations that limit occurring violations. In addition, the Compliance Department must immediately submit to the Senior Management and to the Board of Directors reports on any important violation or breach of the laws and regulations in force.

#### **Article 6:**

The Senior Management must:

- 1- Set a written policy for non-compliance risk management that includes the basic principles to be adopted by the Management and employees of the bank or financial

institution, and the basic procedures concerning compliance with the laws and regulations in force. It must also review and update this policy, on a periodic basis.

- 2- Communicate the Code of Conduct and Business Ethics and promote a compliance culture on a large internal scale within the bank or financial institution, through employees' training and awareness.
- 3- Identify and assess at least once yearly, in cooperation with the Head of the Compliance Department, the main non-compliance risks and cases that the bank or financial institution faces or may face and develop the appropriate management methods; tackle any deficiency in the policies and procedures adopted by the bank or financial institution or any weakness in the implementation of laws and regulations in force; and consider the need for setting or developing additional policies and procedures necessary for the activities of the bank or financial institution.
- 4- Verify that the required corrective procedures are applied upon the detection of any violation resulting from non-compliance.
- 5- Review the periodic reports submitted by the Compliance Department.
- 6- Communicate to the Board of Directors, at least once yearly, the main activity results and reports of the Compliance Department, in addition to the main changes in the laws and regulations in force.
- 7- Notify the Board of Directors immediately of any important compliance deficiency that may cause the bank or financial institution to bear significant financial losses or reputational risks.
- 8- Notify the Board of Directors of the appointment, resignation or dismissal of the Head of the Compliance Department, while showing the reasons in case of dismissal or resignation.

#### **Article 7:**

The Senior Management of the bank or financial institution must set a mechanism that enables the Internal Audit Unit, the Risk Management, and the Legal Department, to take cognizance of the Compliance Department's reports, particularly upon the detection of a violation or breach of the laws and regulations in force; it must also ensure that the work of these bodies is characterized by complementariness and mutual consultation, with the aim of submitting the proposals to be adopted in order to spare the bank or financial institution any reputational risk or legal risk or any other risk that may affect business continuity.

The Senior Management must also require the Head of the Internal Audit Unit to inform the Head of the Compliance Department of the main violations and breaches of the laws and regulations in force, particularly non-compliance cases detected in the course of the audit work, so as to enable the Compliance Department to submit early remedial proposals to the Senior Management.

#### **Article 8:**

The work of the Compliance Department shall cover the parent bank or financial institution and all its affiliates in Lebanon and abroad.

### **Article 9<sup>1</sup>:**

Lebanese banks or financial institutions affiliated to Lebanese banks may adopt the Compliance Department of the parent bank.

### **Article 10:**

Banks and financial institutions are required to:

- a- Communicate to Banque du Liban and the Banking Control Commission:
  - 1- The name and curriculum vitae of the Head of the Compliance Department.
  - 2- The resignation or dismissal of the Head of the Compliance Department, along with the reasons behind such resignation or dismissal.

Banque du Liban is empowered, upon the recommendation of the Banking Control Commission, to object to the appointment of the Head of the Compliance Department, and the concerned bank or financial institution must immediately comply with this objection.

- b- Refrain from paying any compensation to the Head of the Compliance Department, except for those decided by the Board of Directors according to an explicit decision taken for that purpose.
- c- Make sure that the Banking Control Commission takes cognizance of the Board of Directors minutes concerning the implementation of the provisions of the laws and regulations in force, particularly those relating to the duties and proposals of the Compliance Department.
- d- <sup>2</sup>Communicate to the Compliance Unit at Banque du Liban:
  - 1- The name and curriculum vitae of the Heads of the Compliance Department, the Legal Compliance Unit, and the AML/CFT Compliance Unit.
  - 2- The resignation or dismissal of any person mentioned in Subparagraph 1 above, along with the reasons behind such resignation or dismissal.
  - 3- The Compliance Department detailed Organizational Chart, showing the number of employees in the Legal Compliance Unit and the AML/CFT Compliance Unit, as well as the Reporting System implemented within the Compliance Department and in the latter's relations with all other administrative units.
  - 4- The Compliance Department work rules that clearly specify its role and responsibilities, as approved by the Board of Directors.

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<sup>1</sup> This Article was amended pursuant to Article 1 of Intermediate Decision No 11547 of September 23, 2013 (Intermediate Circular No 338).

<sup>2</sup> This Paragraph was added pursuant to Article 1 of Intermediate Decision No 12320 of August 16, 2016 (Intermediate Circular No 431) whose Article 2 reads as follows:

“Article 2: Banks and financial institutions are granted a time limit ending on September 15, 2016, to comply with the provisions of this Decision.”

- 5- The Compliance Department Work Program referred to in Article 4 above, as approved by the Board of Directors.
  - 6- Any change in the above-mentioned information and documents, as soon as it occurs.
- e- <sup>1</sup>Submit to the Compliance Unit at Banque du Liban the following documents concerning the capital structure of the bank/financial institution and its percentage of ownership in other institutions:
- 1- A detailed diagram indicating the identity and the percentage of ownership of each shareholder holding more than 20% of the bank/financial institution total shares.
  - 2- A detailed diagram indicating the percentage of ownership of the bank/financial institution in other entities in Lebanon and abroad, along with the identity and place of incorporation of these entities.
  - 3- A detailed list indicating the identity and the percentage of ownership of each shareholder holding less than 20% of the bank/financial institution total shares.
  - 4- Any change in the above-mentioned information and documents, as soon as it occurs.

**Article 11:**

Banks and financial institutions are prohibited from outsourcing compliance monitoring, in whole or in part, to any external specialized firm.

**Article 12:**

Banks and financial institutions are granted a time limit ending on September 30, 2013, to comply with the provisions of this Decision.

**Article 13:**

This Decision shall be published in the Official Gazette and shall come into force upon its issuance.

Beirut, January 12, 2013

The Governor of Banque du Liban

Riad Toufic Salamé

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