Basic Circular No 135

Addressed to Banks and Financial Institutions

Attached is a copy of Basic Decision No 12116 of 26 October 2015 relating to Debt Restructuring.

Beirut, 26 October 2015

The Governor of Banque du Liban

Riad Toufic Salamé

Basic Decision No 12116

Debt Restructuring

The Governor of Banque du Liban,

Pursuant to the Code of Money and Credit, particularly Articles 70, 174 and 182 thereof,
Pursuant to Basic Decision No 7705 of 26 October 2000 (Regulations of the Central Office of Credit Risk),
Pursuant to Basic Decision No 7159 of 10 November 1998 (Classification of Debt Risks),
After consulting the Association of Banks in Lebanon and the Association of Financial Institutions in Lebanon, and
Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of 9 September 2015,

Decides the following:

Article 1:

For the purpose of implementing the provisions of this Decision, restructurable debts shall mean the debts classified under Basic Decision No 7159 of 10 November 1998 within one of the categories below:

- "Debts for follow-up and settlement".
- "Sub-standard debts".
- "Doubtful debts".

The loans mentioned in this Article shall not include the loans governed by Article 152 of the Code of Money and Credit, government subsidized loans, and non-performing loans (sub-standard, doubtful, and bad debts) which are covered by the soft loan granted by Banque du Liban to the merging bank.

Article 2:

In order to benefit from the provisions of this Decision, the loans of defaulting individuals or legal entities may be restructured, with the consent of both the borrower and lending banks/financial institutions.
In the case of several lending banks/financial institutions, the following rules and procedures shall be adopted:

1- The debt restructuring requires the approval of at least two-thirds of the lending banks/ financial institutions which hold no less than 60% of the borrower's total bank indebtedness.
2- The lender which holds the largest portion of the debt shall manage and supervise the debt restructuring process, and shall be called hereinafter the "Manager", unless otherwise agreed between that lender and other lenders.

3- The "Manager" shall set a detailed preliminary plan to handle the client's situation, including a new repayment schedule based on the client's cash flows, after having:
   - perused the client’s financial statements (balance sheet, income statement, cash flows, etc.).
   - taken note of all the facilities granted to the client by the lending banks/financial institutions and by other lenders.
   - identified the weaknesses that led to the deterioration of the client's financial situation and the way to address these weaknesses.
4- The “Manager” shall notify all the lending banks/financial institutions and the Banking Control Commission that the negotiations concerning the restructuring process have started with the borrower, and that banks/financial institutions assenting to negotiations have pledged to refrain from taking any new legal proceedings against the borrower during the negotiation period.
5- All the assenting banks/financial institutions shall take part in the negotiations in order to set the final plan of a three-month restructuring or rescheduling process renewable for another three-month period with the consent of all banks/financial institutions involved in the negotiations.
6- Without prejudice to their rights, lending banks/financial institutions which assent to the restructuring process on the basis of the guarantees they have obtained, shall refrain from taking any individual action to reinforce such guarantees during the restructuring process or from starting any judicial or enforcement proceedings that might hinder the restructuring agreement with the borrower, if the latter complies therewith.
7- The restructuring process shall not bind any non-assenting lender.

Article 3:

In case the arrangement requires the payment of non-banking financial charges, whether debts or taxes, these charges shall be distributed among banks/financial institutions participating in the restructuring process, each according to its share of the client’s indebtedness. These charges shall be included in the proposed new rescheduling program.

Article 4:

Contingent upon the consent of all the banks/financial institutions participating in the restructuring process, all or some of these banks/financial institutions may grant new loans to revive the borrower’s economic activity, provided the usefulness of the additional funding is proven. These new loans shall be included in the restructuring process.

The concerned banks/financial institutions must inform Banque du Liban and the Banking Control Commission of these new loans.

Article 5[1]:

Contingent upon the approval of the Banking Control Commission, the restructured debts may be reimbursed or reduced through the value of the real estate properties, equities, and shares acquired by the borrower in accordance with Article 154 of the Code of Money and Credit.

[1]- This Article was amended pursuant to Article 1 of Intermediate Decision No 12738 of 21 December 2017 (Intermediate Decision No 479).

Upon proposal of the Banking Control Commission, the BDL Central Council may give its approval to the building up of a "Reserve for real estate properties to be liquidated" or a "Reserve for equities and shares to be liquidated", over a twenty-year period and at an annual proportion of (1/20), against non-liquidated real estate properties or equities or shares acquired as recovery of the debts mentioned in this Article.

Article 6:

The client's restructured debts classified as sub-standard or doubtful debts shall be upgraded to debts for follow-up and settlement, contingent upon the approval of the Banking Control Commission.
Restructured debts shall be recorded off-balance sheet as memorandum accounts, under "restructured debts".
Banks/financial institutions shall not distribute the profits resulting from the release of the provisions built against restructured debts, and shall use these profits to increase their own funds, provided they have already set aside the provisions required by the Banking Control Commission against all debts.

Article 7:

Whenever the arrangement between the lending banks/financial institutions and the borrower specifies either:

- The exemption of the client from a portion of the debt, while reserving the right to claim this portion in case the latter does not abide by the reimbursement program, or
- The exemption of the client from a portion of the debt, once the latter has pledged to abide by the agreed reimbursement program,

The following measures shall be taken:

1- The debt portion the client is permanently exempted from, under the arrangement, if the client abides by the whole reimbursement program, shall be recorded off-balance sheet under the item "Bad loans fully provided for and duly transferred off-balance sheet to memorandum accounts", and shall not be reported to the Central Office of Credit Risk.
2- This debt portion shall be written off if the client abides by the reimbursement program; however, in case of non-reimbursement, this debt portion shall be recorded in the balance sheet under the item "Clients' doubtful or bad debts" and shall therefore be reported to the Central Office of Credit Risk.

Article 8:

Without prejudice to applicable laws, the concerned bank/financial institution may request managerial changes involving a change in the management of the company being the subject of a debt arrangement. It may also request the appointment of a specific person as member of the Board of Directors or of a Financial Director until the reimbursement of the debt under arrangement, as well as the appointment of a second external auditor or the replacement of the appointed external auditor.
In case of several creditors, the "Manager" shall request these changes, with the approval of the banks and institutions involved in the restructuring process.

Article 9:

The arrangement may include the total or partial liquidation of the company or the injection of new funds in order to revive its business activities.

Article 10[1]:

Article 11[2]:

Banks and financial institutions benefiting from the provisions of Article 5 above are required to obtain BDL Central Council's approval, upon proposal of the Banking Control Commission, on any amendment affecting their clients' loans restructuring program, if that program has been executed pursuant to the provisions of this Decision.

Article 12:

The external auditors of the concerned banks/financial institutions shall verify the sound implementation of the provisions of this Decision and shall promptly notify the BDL Governor and the Chairman of the Banking Control Commission of any violation thereof.

Article 13:

The Banking Control Commission shall control the sound implementation of the provisions of this Decision and shall immediately notify the BDL Governor of any violation thereof.

Article 14:

This Decision shall enter into force upon its issuance.

Article 15:

This Decision shall be published in the Official Gazette.

Beirut, 26 October 2015

The Governor of Banque du Liban

Riad Toufic Salamé

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[1]- This Article was repealed pursuant to Article 2 of Intermediate Decision No 12738 of 21 December 2017 (Intermediate Decision No 479).

[2]- This Article was amended pursuant to Article 3 of Intermediate Decision No 12738 of 21 December 2017 (Intermediate Decision No 479).