

10.1.7 According to clause 8 of article 73 of the B.E.R *“The central council is permitted to pay out an additional bonus on EOS for employees whose service ends due to reaching the legal retirement age and have shown dedication and devotion in performing their duties.”*

10.1.8 Furthermore, article 16 of the B.E.R describes the bonus salary that is paid to employees as follows: *“An employee receives a monthly pay called salary which is paid out to them 16 times per year at the following date:*

a) Monthly salary at the beginning of each month of the year.

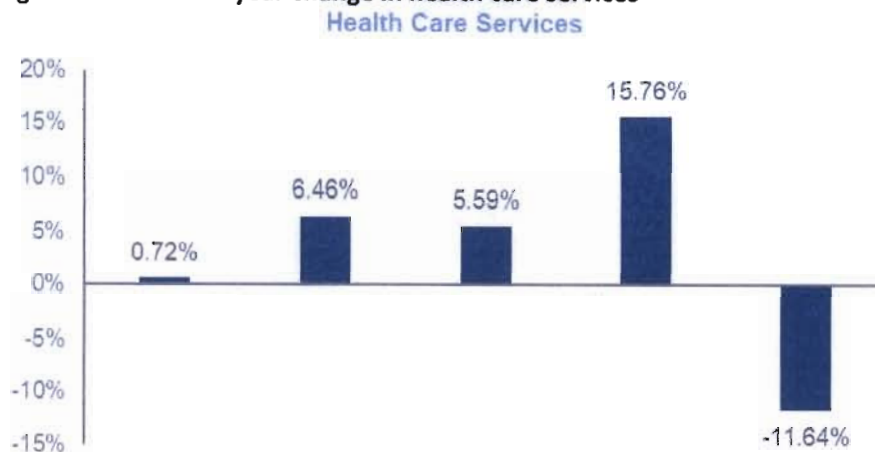
b) A monthly salary for every 3 months paid in the middle of March, June, September and December of each year.

The salary paid out in accordance with "b" comprises of the basic salary and all related compensations. The amount of salary paid out is calculated based on the months of service completed within every 3 months of the year and every part of the month is considered a full month.”

Health Care Services

10.1.9 From 2015 to 2019 the health care services expenses showed a sustained increase year-on-year, including a 15.8% increase in 2019. However, in 2020 the expense amount decreased by 11.64% which is considered an anomaly due to the impact of the COVID-19 pandemic. It would be expected that the healthcare services expenses increase similar to prior years or remain the same. Therefore, there is an unexplained drop for the year 2020 as shown in the chart below.

Figure 10.2 Year-on-year change in health care services



End of Service Compensation from the Bank

10.1.10 End of Service Compensation from the Bank was only recorded in the year 2015 for an amount of LBP 1bn.

10.1.11 BdL's P&L records EOS expenses under a separate line item titled as "Employees' end of service indemnity, net of recoveries." We confirmed that this account does not record a balance in any of the years post 2015 and it is not known why this amount was recorded in the salaries account in 2015.

10.2 End of Service Indemnity

10.2.1 Since 1999 BdL has been contributing to an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees (the "EOS Indemnity Fund").

10.2.2 The costs and associated investments of the EOS Indemnity Fund are reflected in the audited financial statements in two places:

- i) Balance Sheet: the balance sheet shows a single line item in BdL's assets titled 'Excess in end-of-service indemnity investment fund'. The notes to the accounts (in most years Note 21) provide a breakdown of the excess. The balance includes accumulated EOS indemnities, net of loans issued to employees against those indemnities, netted against

the investments in Lebanese treasury bills made on account of the fund.

- ii) Profit & Loss: the related provision for the year is reflected as an expense in the P&L under 'EOS indemnity, net of recoveries', net of interest income earned on the treasury bills.

10.2.3 The calculation of EOS indemnity is illustrated mathematically as follows:

Opening balance of indemnities
(+) additional provision for the year
(-) final settlement of EOS indemnities
(-) loans against EOS
(+) Investment in treasury bills
(=) Ending balance of indemnities

10.2.4 In the following sections, we address the policies governing each part of the calculation and summarize our findings from the analysis done.

10.2.5 There are two types of EOS benefits that are accounted for by BdL. The first type includes monthly contributions that are made to the National Social Security Fund ("NSSF") by BdL which are managed completely by the NSSF. The second type is the indemnity provisions that are taken by BdL and are managed by the Organization and Development Department through investment in Lebanese government treasury bills.

10.2.6 We understand, from the responses to our interview questions put to BdL's human resources department, that for employees subject to social security fund regulations the contributions are borne completely by BdL. Whereas the amount of indemnities not subject to NSSF regulations relate to employees not enrolled, such as the Governor, his deputies and employees that have already cashed their indemnities at the age of 60.

10.2.7 According to clause 1 of article 73 of the B.E.R employees end of service is indemnity entitlement which is calculated as follows:

"An employee is entitled to the following EOS compensation whether or not they are enrolled with the NSSF:

One month salary for every year of service till the 10th year.

One month and a half salary for every year of service after the 10th year to the 20th year.

Two months' salary for every year over the 20th year of service.

The employee is not allowed to combine the compensation received under this clause with any compensation received from the NSSF for whatever amount in relation to EOS compensation."

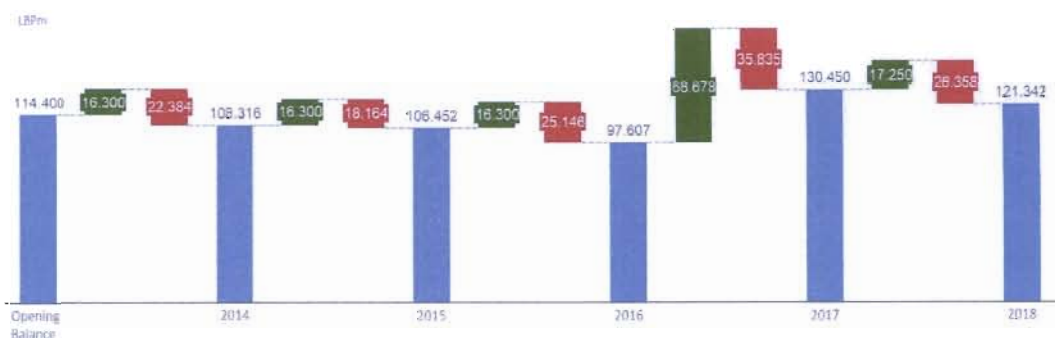
- 10.2.8 Our analysis of the accounts that make up the EOS indemnities showed two categories of EOS compensation: those that are subject to NSSF regulations; and those that are not, as shown in the table below.

Table 10.3 Breakdown of EOS indemnities in LBP'm

Category	2015	2016	2017	2018	2019	2020
Subjected to NSSF regulations	(96,819)	(87,023)	(117,296)	(106,151)	(77,093)	(67,547)
Not Subjected to NSSF regulations	(9,633)	(10,583)	(13,153)	(15,191)	(15,191)	(14,915)
Total EOS Indemnities	(106,452)	(97,607)	(130,450)	(121,342)	(92,285)	(82,462)

- 10.2.9 During the Review Period indemnity provisions and settlements rose significantly with a spike in provisions in 2017. We understand from responses received from BdL that they had not fully accounted for the EOS indemnity related to the early retirement scheme and that this was rectified in 2017, necessitating the increase in provisions. The movement in EOS indemnities is shown in the chart below.

Figure 10.3 EOS indemnities



Provision for the year

- 10.2.10 The EOS amount recorded on the P&L for each year is calculated as the amount of EOS provision for the year netted off against the amount of interest accrued on the

investment in Lebanese government treasury bills. The breakdown of the balance recorded for each year is shown in the table below.

Table 10.4 EOS provision charged to the P&L (LBP'm)

Category	2015	2016	2017	2018	2019	2020
End of Service Compensation from the Bank	15,500	15,550	16,570	17,250	11,266	12,850
End of Service Compensation Interest on treasury bills	(9,908)	(10,010)	(9,523)	(12,416)	(12,550)	(11,389)
Employees' EOS indemnity, net of recoveries	5,592	5,540	7,047	4,834	(1,284)	1,461

10.2.11 Furthermore, we extracted data from the GL in relation to the EOS expense account which confirms the initial debit to the expense account and credit to the accrued expenses. A number of bookings to the provision account were either not expensed or moved from the expense account at the year end. The table below summarizes the provisions analysis conducted. The amounts in red indicate the accounts that reconcile to the amount recorded on the P&L.

Table 10.5 – Summary of provisioning analysis conducted (LBP'm)

Account	2015	2016	2017	2018	2019	2020
Expensed to EOS indemnity expense account	15,500	15,550	16,570	17,250	11,266	12,850
Expensed to EOS indemnity expenses account and transferred (debited) through adjustment at the year-end to Accrued income and other assets account (19.4) - Expenses Of The Defaulting Customers Unit	800	-	-	-	-	-
Expensed to Salaries and related charges expenses account	919	-	-	-	48	80
Debit to commission accounting through end of year adjustment '381 Actuals Transfer'	-	750	720	-	-	-
Debit to Early retirement expenses account	-	-	16,318	3,786	2,892	652
Debit to Prior Year Adjustment on P&L	-	-	35,070	567	-	-
Debit to Early retirement provisions account	-	-	-	-	6,307	-
Debit to allowances and bonuses expense account	-	-	-	-	60	-
Unspecified	-	-	-	-	128	70
Total	17,219	16,300	68,678	21,603	20,701	13,652

Loans and Advances against EOS

10.2.12 As BdL employees are not permitted to borrow from commercial banks, they can obtain credit from BdL. Such loans are offset against the value of EOS indemnities

that BdL records in its financials statements, reducing the amount of the EOS indemnities.

10.2.13 The amounts that can be borrowed by BdL employees are governed by clause 5 and 6 of article 73 of the B.E.R which states that:

" 5. An employee whose completed 20 years of service at BdL and did not settle his EOS with the NSSF is entitled to benefit from an advance on account of his EOS with BdL at the value of 5 months' salary to be paid by BdL without any interest subject to being deducted from his final EOS settlement. The employee is entitled for another advance with the same conditions when they complete 30 years of service with BdL.

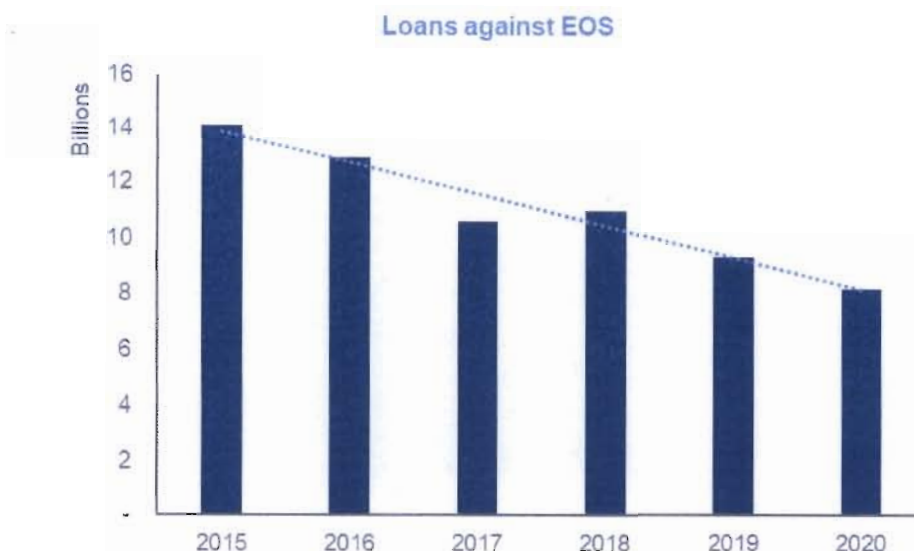
6. An employee who decides to voluntarily settle their EOS with BdL after completing 20 years of service and having benefited from Clause 5 above is required to return the amount received under clause 5 in addition to interest equal to half of the yearly interest on T-bills. Although the employee EOS settlement is done in accordance with clause 3, the calculation of their entitlement is done based on clause 1."

10.2.14 As part of our analysis, we identified and reviewed the accounts that make up the balance of the loans against EOS. We also requested sample documentation in relation to advances paid to three employees on account of EOS, the names of the employees selected were Rita George Baghazi, Randa Saed Faraj and Sami Joseph Aoun. The samples reviewed were all in line with the applicable policies and procedures for the following reasons:

- i) All three employees have completed more than 20 years of service; and
- ii) All three employees were paid an amount equal to five months of their salary and allowances.

10.2.15 Furthermore, the analysis showed that during the Review Period the loans against EOS have declined year-on-year as shown in the chart below.

Figure 10.4 Decline in loans against EOS during the Review Period



Investment in treasury bills

10.2.16 As explained above, BdL setup an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees. The balance of Lebanese treasury bills held in fiduciary for settlement of the staff EOS consists of the amount of treasury bills coupons and the accrued interest receivable as at the end of each year. The table below summarizes the amounts charged under each category.

Table 10.6 Coupon and interest receivable on treasury bills (LBP'm)

Category	2015	2016	2017	2018	2019	2020
Accrued interest receivable	4,231	3,827	4,058	4,972	4,404	4,905
Coupon treasury bills	153,462	128,508	140,041	168,183	143,066	151,887

10.3 Early Retirement

10.3.1 On 19 September 2007 the Central Council approved the implementation of the early retirement scheme for BdL employees who have completed 20 years or more of service with BdL and subject to not being in their last year. The decision was then amended by decision number 25/15/08 dated 5 June 2008.

10.3.2 Initially, this scheme was only available to employees who expressed their interest by applying during the two months window from 1 October 2007 to 30 November 2007. The Central Council amended the decision and extended this scheme to all

employees that were eligible, subject to being approved by the Central Council on a case-by-case basis.

10.3.3 Under this scheme BdL employees who met certain criteria were entitled to benefit from a package of additional compensation on top of the EOS compensation required as per the law. The details of the benefits included under this scheme are explained in the section below.

10.3.4 During the Review Period BdL recorded the amounts shown in the table below in relation to the early retirement scheme.

Table 10.7 Early retirement costs recorded on BdL's P&L in LBP'm

LBP'm	2015	2016	2017	2018	2019	2020
Salaries and related charges - early retirement of employees	41,038	42,816	113,824	70,222	20,781	2,028

10.3.5 As illustrated in the above table, there were significant increases in the amounts paid in relation to early retirement in the period 2015 to 2017, the amount recorded in 2017 was more than twice the amount paid in the previous year.

Benefits under the early retirement scheme

10.3.6 BdL employees that were found eligible to apply for the early retirement scheme and gained approval by the Central Council were paid additional salaries and allowances in accordance with the table below:

Table 10.8 Schedule of benefits under the early retirement scheme

#	Years of Service	Benefit
1	4 years or less	Salaries and allowances for the remaining period
2	4 years and 1 month	Salaries and allowances for the remaining period
3	4 years and 2 months	Salaries and allowances for the remaining period
4	4 years and 3 months	Salaries and allowances for the remaining period
5	Between 4 years 3 months and 5 years	Salaries and allowances for 4 years and 4 months
6	Between 5 and 6 years	Salaries and allowances for 4 years and 8 months
7	Between 6 and 7 years	Salaries and allowances for 4 years and 12 months
8	More than 7 years	Salaries and allowances for 5 years

10.3.7 Every employee resigning under this scheme is paid an extra bonus of eight months' of pay, calculated based on the basic salary and allowances applicable at the time of resignation subject to not being less than LBP 30 million.

10.3.8 Employees who resign under this scheme are still entitled to benefit from the medical benefits along with their dependants as stipulated in article 41 from the employee regulations as per the conditions in clause 9 of the same article.

10.3.9 Employees who resign under this scheme can benefit from the educational support provided to their dependants as at the date of resignation. BdL decides on the amounts of support provided.

Conditions for the early retirement scheme

10.3.10 The employee is required to settle all amounts due to BdL from the sums received under this scheme.

10.3.11 The employee indemnifies BdL from any claims or rights completely from the date the resignation is approved.

Findings from samples reviewed

10.3.12 We received two sample approval letters issued by the Governor to the HR department informing them of the Central Council's approval for early retirement applications submitted by Mrs. Huda Al Shadiaq Alsableeni and Mr. Riad Afif Malaaeb.

10.3.13 The sample approval letter for Mrs. Huda Al Shadiaq included the following benefits:

- i) Increase in salary up to the maximum limit for a director's salary subject to not exceeding LBP 1bn.
- ii) Waiving of the current account red card outstanding balance up to LBP 100 million
- iii) To continue benefiting from the medical services and educational scholarships provided by BdL for her and her dependants.
- iv) Apply the maximum threshold of a director's salary in calculating the EOS compensation due under the NSSF and by BdL.

10.3.14 The sample approval letter for Mr. Riad Afif Malaaeb included the following benefits:

- i) Increase in salary up to the maximum limit as per his designation.
- ii) Waiving of the current account and red card outstanding balance up to LBP 100m.
- iii) To continue benefiting from the medical services and educational scholarships provided by BdL for him and his dependants.

10.4 Conclusion

10.4.1 During the Review Period BdL's salaries and related charges were in the range of LBP 155bn and LBP 167bn per year. A&M's preliminary analysis of the items that make up the balance of salaries and related charges showed unexplained fluctuations in the amounts charged under the "Allowances and Bonuses" and "Healthcare Services" categories.

10.4.2 As explained above, there are two types of EOS benefits that are accounted for by BdL: 1. monthly contributions made by BdL to the NSSF which are managed completely by the NSSF; and 2. indemnity provisions in accordance with the B.E.R that are taken by BdL and are managed by the Organization and Development Department. To cover its EOS indemnity liabilities BdL has been contributing to an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees.

10.4.3 Indemnity provisions and settlements rose significantly with a spike in provisions in 2017. We understand from responses received from BdL that they had not fully accounted for the EOS indemnity related to the early retirement scheme and that this was rectified in 2017, necessitating the increase in provisions.

10.4.4 In line with the Central Council decision number 25/15/08 dated 5 June 2008, BdL introduced the "Early Retirement" scheme to its employees. Under this scheme BdL employees who met certain criteria were entitled to benefit from a package of additional compensation on top of the EOS compensation required as per the law.

10.4.5 For the period from 2015 to 2017 there were significant increases in the amounts paid in relation to early retirement, the amount recorded in 2017 was more than twice the amount paid in the previous year.

11 Regulatory Framework

11.1 Legal Framework

11.1.1 The Banque du Liban (“BdL”, “the Bank” or “the Central Bank”) was established by the Code of Money and Credit (“CMC”)¹²⁶ promulgated on 1 August 1963, by Decree no. 13513¹²⁷. It started to operate effectively on 1 April 1964¹²⁸.

11.1.2 The capital of BdL is constituted from a State appropriation authorised by law, or through the incorporation of reserves as may be authorised by decree from the Council of Ministers, upon the request of the Bank and on the proposal of the Minister of Finance¹²⁹.

11.1.3 Central bank legal frameworks vary across the benchmark countries. In most of them the roles and functions of the central bank are set in primary legislation in the form of a specific central bank law. Only in a few countries are the central bank's roles and responsibilities defined in the constitution, and even in those cases provisions are specified in a central bank law¹³⁰.

11.1.4 From a formal perspective, the governance of central banks is always established in, or pursuant to, the “central bank law.” Because they are essentially creations of the State, central banks are established by a law, or a law authorizes their establishment through another legal instrument. This legislation, called “central bank law,” operates as the “organic law” of the central bank and accordingly establishes the basic governance framework at the institution. BdL governance and powers are pursuant to the CMC.

11.1.5 Beyond primary law, related secondary legal instruments (e.g. by-laws, internal regulations, codes of conduct) often provide for the more detailed aspects of the decision-making processes (i.e. the procedures, as will be discussed below).

¹²⁶ Where we refer to articles of the Code of Money and Credit (CMC), the exhibit of the translated CMC can be reviewed at Exhibit 02.

¹²⁷ Article 12 CMC

¹²⁸

¹²⁹ Article 15 CMC

¹³⁰ Exhibit 18: OECD Central Banks’ Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

Table 11.1 Comparative overview of legal frameworks for central banks in benchmark countries¹³¹

	Central bank	Year established	Legal tender	Related provisions in constitution or international treaty	Primary legislation	Ownership
Lebanon	Banque du Liban	August 1963	Lebanese Lira	Decree 13513	Code of Money and Credit	Fully owned by the state.
Australia	Reserve Bank of Australia	January 1960	Australian dollar	-	Reserve Bank Act, 1959	Fully owned by the state.
Brazil	Central Bank of Brazil	December 1964	Brazilian real	Articles 52, 84 and 164 of the Constitution of the Federative Republic of Brazil	Law No. 4.595, 1964	Fully owned by the state.
Costa Rica	Central Bank of Costa Rica	January 1950	Costa Rican colón	Articles 188 and 189 of the Costa Rica Constitution	Organic Law of the Central Bank of Costa Rica, 1995	Fully owned by the state.
Euro area	European Central Bank	June 1998	Euro	A number of articles in TFEU ¹³²	Statute of the European System of Central Banks and of the European Central Bank, 2016	Owned by all EU central banks; ownership of these central banks varies (most are owned by the Member State).
India	Reserve Bank of India	April 1935	Indian rupee	-	Reserve Bank of India Act, 1934	Fully owned by the state.
Mexico	Bank of Mexico	September 1925	Mexican peso	Article 28 of the Political Constitution of the United Mexican States	Bank of Mexico Law, 1993	Fully owned by the state.
New Zealand	Reserve Bank of New Zealand	August 1934	New Zealand dollar	-	Reserve Bank of New Zealand Act, 1989	Fully owned by the state.
Poland	National Bank of Poland	January 1945	Polish złoty	Article 227 of the Constitution of the Republic of Poland	Act on Narodowy Bank Polski, 1997	Fully owned by the state.
Sweden	Sveriges Riksbank	September 1668	Swedish krona	Articles 13 and 14 of Chapter 9 of the	Sveriges Riksbank Act, 1988	Fully owned by the state.

¹³¹ Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

¹³² Treaty on the Functioning of the European Union

	Central bank	Year established	Legal tender	Related provisions in constitution or international treaty	Primary legislation	Ownership
				constitution of Sweden		
Switzerland	Swiss National Bank	June 1907	Swiss franc	Article 99 of the Federal Constitution of the Swiss Confederation	Federal Act on the Swiss National Bank, 2003	Around half owned by the cantons and cantonal banks, with the remainder owned by private individuals.
Turkey	Central Bank of the Republic of Turkey	June 1930	Turkish lira	-	Law on the Central Bank of the Republic of Turkey, 1970	55% owned by the state and 45% owned privately (mainly banks).
United States	Federal Reserve System	December 1913	US dollar	-	Federal Reserve Act, 1913	Commercial banks hold stocks.

11.1.6 Since its implementation in 1963, the CMC has been updated and supplemented to reflect BdL's expanding role and other developments related to the functioning of the financial markets. The following is a non-exhaustive list of some notable instruments:

Table 11.2 Notable instruments updating the CMC¹³³

Name	Key Aspects
Law n°28/1967	Establishment of the Higher Banking Commission, the Banking Control Commission, and the National Deposit Guarantee Institution. Article 45 of this law suspended for a period of five years (one-time renewable period) new banks licenses. This license suspension was extended for an additional five years by Decree n° 3321/72.
Law n°6102/1973	Amendment of some provisions of the CMC, notably articles 76, 102, 105, 152, 153, 186 of this law. These amendments aimed, in particular, to remove unjustified restrictions that impede the exercise of profession or tighten the areas of investment. The new article 174 specified that BdL must take into account the opinion of Association of Banks when laying down overall banking regulations.
Law n°77/1977	Amendment of some provisions of the CMC. The establishment of any Lebanese or foreign bank requires authorisation of the BdL. The authorisation may be refused on grounds of public interest.
Law n°42/1986	Prohibiting the sale of BdL gold reserve, except by a legislative enactment of the Parliament.
Law n°99/1991	BdL determines the required minimal capital for any Lebanese or foreign bank which has obtained the approval after the promulgation of this law.
Law n°133/1999	Expanding the role of BdL defined in Article 70 of CMC to include the development and regulation of the payment systems, especially regarding ATMs and payment cards, transfer payments, including electronic transfers; and the development and regulation of

¹³³ Exhibit 19: Based on the information of the association of Banks in Lebanon, <https://www.abl.org.lb/english/lebanese-banking-sector/main-banking-amp-financial-regulations>

Name	Key Aspects
	clearing and settlement operations related to payment systems and financial instruments.
Law n°139/1999	Established “The Central Securities Depository - Midclear”, a “Sal” or Lebanese joint stock company with Bdl as the main shareholder. Carries out exclusively the role of the central depository and settlement and clearing of financial instruments and securities included in the regulatory financial markets in Lebanon.

11.2 Mandate

11.2.1 The mandate of Bdl is clearly formulated, encompassing the three interrelated concepts that constitute a distinctly formulated central bank’s mandate.

Table 11.3 Bdl’s mandate assessment

Concept	Definition	Assessment
Objectives	Goals that a central bank should aim to accomplish (the “why”)	- Clearly articulated as per our analysis below in (i)
Functions	Areas of activities that a central bank is mandated to undertake to achieve its objectives (the “what”)	- Clearly articulated as per our analysis below in (ii)
Powers	Specific legal tools at the disposal of a central bank to implement its functions (the “how”)	- Clearly articulated as per our analysis below in (iii)

ii) Objectives of Bdl

11.2.2 The overall objective of Bdl is to safeguard the currency as a fundamental guarantee for permanent economic and social development. This is clearly formulated in article 70 of CMC¹³⁴.

11.2.3 The role, responsibilities, and operating framework for Bdl are set out in Title II (Sections 1 – 10, or Article 12 – 120) of the CMC, including organisation structure (Section 2), supervision arrangements (Section 4), overall mission (Section 6), operations (Section 8), and exemptions and privileges (Section 10).

ii) Functions of Bdl

11.2.4 Bdl is mandated to undertake four core functions to achieve its objective: safeguarding a sound national currency, maintaining financial and economic stability, safeguarding the basic structure of the banking system, and overseeing and developing the banking and financial market.

¹³⁴ As modified by the Law promulgated by Decree No. 6102 of 5 October 1973

iii) Powers of BdL

11.2.5 BdL is vested and endowed by law¹³⁵ to use all of the legal tools at the disposal of the Bank to pursue its mandate and fulfil its missions. It can use all measures and tools it deems appropriate to ensure its functions are fulfilled. The CMC also covers what BdL is not entitled to transact or do.

11.2.6 BdL's operations must be carried out and accounted for in conformity with commercial and banking rules and practices¹³⁶.

Table 11.4 Powers of BdL as described in the CMC

Function	Key powers	Notable provisions
Safeguarding a sound national currency with an exclusive mandate for issuing money	<ul style="list-style-type: none"> - BdL is vested by law with the exclusive right to issue the national currency of Lebanon¹³⁷. - BdL is solely responsible for safeguarding the currency of Lebanon¹³⁸, "<i>as a fundamental guarantee for permanent economic and social development</i>", and more specifically for maintaining economic stability, safeguarding the structure of, and regulating and supervising the banking system, and developing the monetary and financial market. 	<ul style="list-style-type: none"> - Bullion and exchange operations¹³⁹ including but not limited to operations on gold and other precious metals, operations on trade Bills and instruments of payments and assets in foreign currencies, operations on Bonds issue or guaranteed by foreign Governments or international institutions. - BdL is also obligated to retain, among its assets, bullion and foreign exchange providing a safe cover for Lebanese currency equivalent in value to at least thirty per cent (30%) of the money it issued and of its deposits at call, provided that the ratio of the said bullion and foreign exchange to the value of the money it issued is not under fifty per cent (50%).¹⁴⁰ - BdL's balance sheets and statements must include, under distinct postings, the amount of the notes issued and that of the sub-divisional money issued.¹⁴¹
Maintaining financial and economic stability	BdL operates as banker and financial agent to the public sector ¹⁴² .	<ul style="list-style-type: none"> - BdL acts as depository of funds, effects transfer, ensures safekeeping and grants credit under specific circumstances.¹⁴³ - Supervision of the banking system was later transferred to the Banking Control Commission of Lebanon (BCCL).

¹³⁵ Title 8 of CMC

¹³⁶ Article 13 CMC

¹³⁷ Article 10 CMC, where the issue of money is the exclusive privilege of the State, however the State have vested this privilege in the Central Bank

¹³⁸ Article 70 CMC

¹³⁹ Articles 81, 82 and 83 CMC

¹⁴⁰ Article 69 CMC

¹⁴¹ Article 68 CMC

¹⁴² Articles 84 to 97 CMC

¹⁴³ Public Sector is taken to mean the State, municipalities and the juridical persons of public law referred to in article 2 of Decree-Law No. 117 of 12 June 1959, http://www.interior.gov.lb/oldmoim/moim/doc/municipal_act_eng.doc

Function	Key powers	Notable provisions
Safeguarding the basic structure of the banking system	BdL has the sole power to issue regulations, directives and circulars that ensure safety and soundness of the financial sector.	- CMC describes the operations framework of BdL with banks ¹⁴⁴ where it can open accounts, lend, or hold deposits amongst other types of operations. - The banking system regulations are also set out in the CMC ¹⁴⁵ , including but not limited to acting as depository of funds, effecting transfer, ensuring safekeeping and granting credit under specific circumstances, defining financial market, obligations of banks, general management regulations, penalties etc.
Overseeing and developing the banking and financial market	BdL can use all measures it deems appropriate to ensure exchange rate stability ¹⁴⁶ , specifically the intervention in the foreign exchange market by buying and selling foreign currencies.	

iv) Mandate comparison with peer Central Banks

11.2.7 Central banks are unique institutions that usually differ from one country to another. While the mandates and responsibilities of central banks in the benchmark countries are comparable, the degree of central bank independence in terms of appointment and termination provisions varies.

Table 11.5 Comparative overview of provisions on central bank mandate and independence¹⁴⁷

Country	Mandate	Responsibility
Lebanon	Price stability, money issue, financial stability, currency stability	Monetary policy, prudential supervision
Australia	Price stability, maximum employment, economic prosperity, and welfare	Monetary policy, prudential supervision
Brazil	Price stability, financial stability	Monetary policy, prudential supervision
Costa Rica	Price stability, currency stability, general economic stability, financial stability	Monetary policy, prudential supervision
Euro area	Price stability, support general economic policies	Monetary policy, prudential supervision

¹⁴⁴ Articles 98 to 109 CMC

¹⁴⁵ Articles 121 to 230 CMC

¹⁴⁶ Article 75 of CMC modified by the Law promulgated by Decree No. 6102 of 5 October 1973

¹⁴⁷ Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

Country	Mandate	Responsibility
India	Price stability, financial stability	Monetary policy, prudential supervision
Mexico	Price stability, financial stability	Monetary policy, prudential supervision
New Zealand	Price stability, financial stability	Monetary policy, prudential supervision
Poland	Price stability, currency stability, financial stability, support economic policy	Monetary policy, macro-prudential supervision
Sweden	Price stability, financial stability	Monetary policy, macro-prudential supervision
Switzerland	Price stability, development of economy	Monetary policy
Turkey	Price stability, currency stability, financial stability, maximum employment	Monetary policy, macro-prudential supervision
United States	Price stability, maximum employment, long-term interest rate stability	Monetary policy, prudential supervision

11.2.8 In comparison with selected peer countries, we consider that the mandate of Bdl is clearly formulated, encompassing the three interrelated concepts that constitute a distinctly formulated central bank's mandate.

11.3 Autonomy

11.3.1 Key legal provisions governing the independence of a central bank should include a well-defined mandate to attain and maintain price stability; the process for appointing and dismissing senior officials and protecting them from unilateral government action; the role and operation of the monetary policy committee and the autonomy of its decisions; and a high degree of accountability and transparency to the government and the public¹⁴⁸.

We have undertaken an analysis of Bdl's autonomy through four aspects: institutional, functional, personal, and financial.

i) Institutional

¹⁴⁸ Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021., <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

11.3.2 BdL is a legal public entity that is not subject to administration and management regulations and supervisions applicable to public sector organisations¹⁴⁹.

11.3.3 Nevertheless, all current and former persons 'belonging' to the Bank, in any capacity, are bound by the Banking Secrecy Law of 3rd September 1956¹⁵⁰.

ii) Functional

11.3.4 BdL does not report to any government jurisdiction, and as per our analysis, it therefore has a functional autonomy.

11.3.5 In fulfilling its role, BdL is required to cooperate with the Government, advising it on matters of economic and financial policy to promote alignment between its mission and the Government's objectives.

11.3.6 In this context, BdL is authorised by law to propose to the Government measures which it deems are likely to have a favourable bearing on the balance of payments, the movement of prices, public finances and, broadly speaking, on economic development. BdL must draw the Government's attention to facts which, in its judgment, may harm national economy and currency. In turn, the Government must obtain the Bank's advice on matters related to money and have to invite the Bank's Governor to join in deliberations on such questions.

11.3.7 There is a regular coordination between the BdL and the Government in order to ensure consistency between BDL's objectives and those of the Government. Cooperation with the Government implies coordinating fiscal and monetary policy measures. It informs the Government on economic matters that might negatively affect the national economy and currency and suggests measures that might benefit the balance of payments, the price level, public finance and offers advice on how to promote economic growth. It also ensures the relations between the Government and international financial institutions.

¹⁴⁹ Article 13 CMC

¹⁵⁰ Article 151 CMC. Note: Banking Secrecy Law establishes that managers and employees of the banking establishments are bound to absolute secrecy in favour of the bank's clients and may not disclose to anyone, whether a private individual or an administrative, military or judicial authority, the names of clients, their assets and facts concerning them; they are authorized to open code number deposit accounts for their clients. However, law no. 318/2001 (replaced by law no. 44/2005) gave the exclusive right for the Special Investigation Commission to decide the lifting of the banking secrecy on accounts opened with banks or financial institutions and suspected to have been used for money-laundering and financing of terrorism purposes. Law no. 44 is exhibited as part of the documentation (Exhibit 20).

iii) Personal

11.3.8 As per its statutes, BdL's key decision makers (Governor and members of Executive Boards, Monetary Policy Committees and Oversight Boards) are autonomous from political and private economic interests.

11.3.9 Pursuant to CMC articles, Governor and Vice-Governors must have the experience required for their functions, and as per global standards.

iv) Financial

11.3.10 BdL is an institution vested with financial autonomy¹⁵¹, where it has all of the financial means and tools to fulfil its duties.

11.3.11 The issue of money is the exclusive privilege of the State¹⁵², however, this power was vested in BdL¹⁵³. Therefore, we have concluded that financial autonomy of BdL is fulfilled.

11.4 Governing body and decision-making structures

i) Governor

11.4.1 BdL is managed by the Governor¹⁵⁴ assisted by four Vice-Governors, and the Central Council.

11.4.2 The Governor is appointed by decree from the Council of Ministers, on the proposal of the Minister of Finance¹⁵⁵, for a renewable six-year term. He is engaged under the regulations of private law¹⁵⁶, and is therefore not considered as a public official, nor servant¹⁵⁷.

¹⁵¹ Article 13 CMC

¹⁵² Article 10 CMC

¹⁵³ Article 47 CMC

¹⁵⁴ Article 17 as modified by Law no. 4/85 of 1st April 1985

¹⁵⁵ Article 18 CMC

¹⁵⁶ Article 33 CMC

¹⁵⁷ "Lebanon Law No. 159/1999, adopted in 1999 and recently amended in October 2020, that criminalizes illicit enrichment and that defines it as the significant increase in the assets of a public servant, judge or associates; is applicable to public officials and servants. Article 2 of Lebanon Law No. 159/1999 imposes a duty on public officials to submit a financial declaration of their assets and their families' assets. Article 3 of Lebanon Law No. 159/1999 further specifies that the public officials must submit this declaration upon assuming office and upon termination of their services. The recently amended Lebanon Law No. 159/1999 imposes that an additional declaration must be submitted every three years. Lebanon Law No. 159/1999 ensures that there are regular inspections. The new amended version of Lebanon Law No. 159/1999 pushes for more transparency, which in turn affects

11.4.3 The Governor is the legal representative of BdL and the CMC gives him the largest span of authority on the management of the Bank. He is entrusted with the enforcement of the CMC, and the implementation of the Central Council's resolutions.

ii) Vice Governors

11.4.4 In fulfilling his role, the Governor is assisted by four Vice-Governors. The Vice-Governors are appointed by decree sanctioned by the Council of Ministers for a renewable five-year term, on the proposal of the Minister of Finance after consultation with the Governor¹⁵⁸.

11.4.5 They are engaged under the regulations of private law; however, they must not be affiliated to any political party, discharge any public duties nor be members of any private Board of Directors¹⁵⁹.

11.4.6 The four Vice-Governors execute functions assigned to them by the Governor. They assist the Governor in managing BdL, carrying out functions specified by him. In addition, they assume their duties as members of the Central Council.

11.4.7 We have not been provided with any documentation which details the role of the four Vice-Governors, nor any other evidence that supports the responsibilities assigned. Depending on new nominations, their roles and responsibilities have shifted (detailed in organisation charts section). Therefore, we have deduced the responsibilities as per the organisation charts we have been provided with and the decisions taken during the Central Council.

iii) Central Council

banking secrecy in multiple ways. For instance, the definition of public officials has been extended. Previously, a public official was defined as any person exercising a public function, the amendment now includes any person working on behalf of the government.” However, it is unclear if the Governor, Vice-Governors or any BdL employee fall under the above-mentioned dispositions.[this is not part of the quote] Tohme Law Firm, Lebanon Bank Secrecy Law - <https://www.tohmelaw.com/publications/lebanon-bank-secrecy-law>

¹⁵⁸ Article 18 CMC

¹⁵⁹ Article 33 CMC

- 11.4.8 The Central Council or “CC” of the BdL is vested with the authority to establish the executive regulations of the CMC¹⁶⁰ and other regulations concerning the Bank’s operations¹⁶¹.
- 11.4.9 As per its statutory terms of reference, the Central Council sets the monetary and credit policies, including money supply, discounts, and lending rates. It discusses and decides, among other things, on issues concerning the banking and financial sectors, the establishment of clearing houses, the issuing of currency and on loan requests by the public sector entities¹⁶². It decides on the rules and procedures that govern the staff and operations of the Bank, and on its annual budget and accounts.
- 11.4.10 It debates questions affecting the Bank’s buildings and immovable assets, the lifting of seizure of real estate, mortgage oppositions or registrations; the relinquishment of privileges or of titles; projects of transactions or compromise bearing on the Bank’s interests.
- 11.4.11 The Board shall also validate the expenditures under the Bank’s budget, modifying them in the course of the year as may be required.
- 11.4.12 It shall close the accounts of the financial year¹⁶³ and shall approve the annual draft report¹⁶⁴ which the Government is to address to the Ministry of Finance¹⁶⁵.
- 11.4.13 The Board cannot meet without the physical attendance of the Governor or of his deputy, nor can it meet if the Director-General of Finance or the Director-General of National Economy is not present.
- 11.4.14 The attendance of at least four members of the Board is necessary to ensure quorum. Resolutions are passed by majority vote of the attending members, and, in case of a tie, the Governor’s vote is overpowering.

iv) Other supporting committees

¹⁶⁰ Article 33(1) CMC

¹⁶¹ Article 33 (7) CMC

¹⁶² Statutory terms of reference of BdL’s Central Council per Decision 51 on 19/11/1964.

¹⁶³ Article 11 CMC

¹⁶⁴ Article 12 CMC

¹⁶⁵ In accordance with article 117 CMC

11.4.15 The Governor and the Vice-Governors have been assigned the oversight and chair of executive committees. The following table maps all BdL committees chaired or not by the Governor and the Vice-Governors.¹⁶⁶

Figure 11.1 BdL Governance bodies and committees map¹⁶⁷

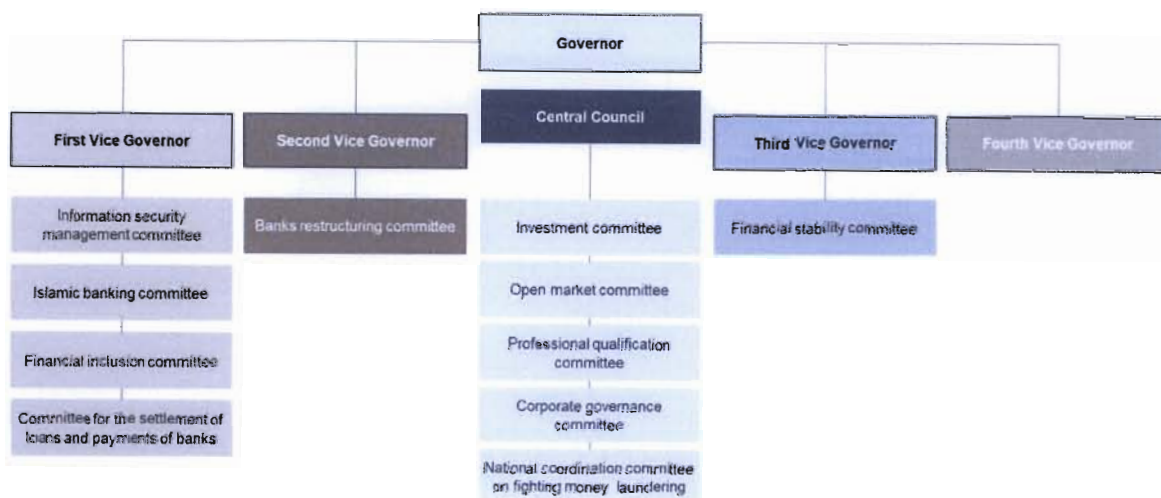


Table 11.6 Summary Table: Governing arrangements of BdL

Item	Analysis angles
Legal framework	BdL operates on the basis of a legal framework that is similar to other comparable central banks. We have not identified any specific concerns in this regard.
Mandate	BdL's mandate has been established through (publicly available) legislative instrument (Code of Money and Conduct). This is in line with prevalent global standards.
Autonomy (by design)	<p>We have analysed this concept through four lenses:</p> <ul style="list-style-type: none"> - Institutional: BdL is not influenced by the State or any other private third parties - Functional: BdL implements its functions without any direct government interference - Personal: Even considering the political unicity of Lebanon, BdL's key decision makers are autonomous - Financial: BdL pursues its mandate by way of the financial means required to do so <p>We have concluded that BdL functions as an autonomous institution pursuant to the CMC.</p>
Governing body	Although BdL has various decision-making bodies, the main decision taker remains the Central Council and ultimately the Governor. The

¹⁶⁶ Exhibit 23: Based on information available on the BdL website: https://www.BdL.gov.lb/files/tabs/BDL_OrgChart_Detailed.pdf <last accessed 4th October 2022>

¹⁶⁷ Exhibit 23: BdL Organisation Charts throughout the years

	<p>Governor function remains the core governing body, as it can be viewed from the proceedings of the Central Council.</p> <p>We consider the authority concentrated in the Governor goes beyond what is reasonably expected in central banks, with insufficient scrutiny over the use of such authority.</p>
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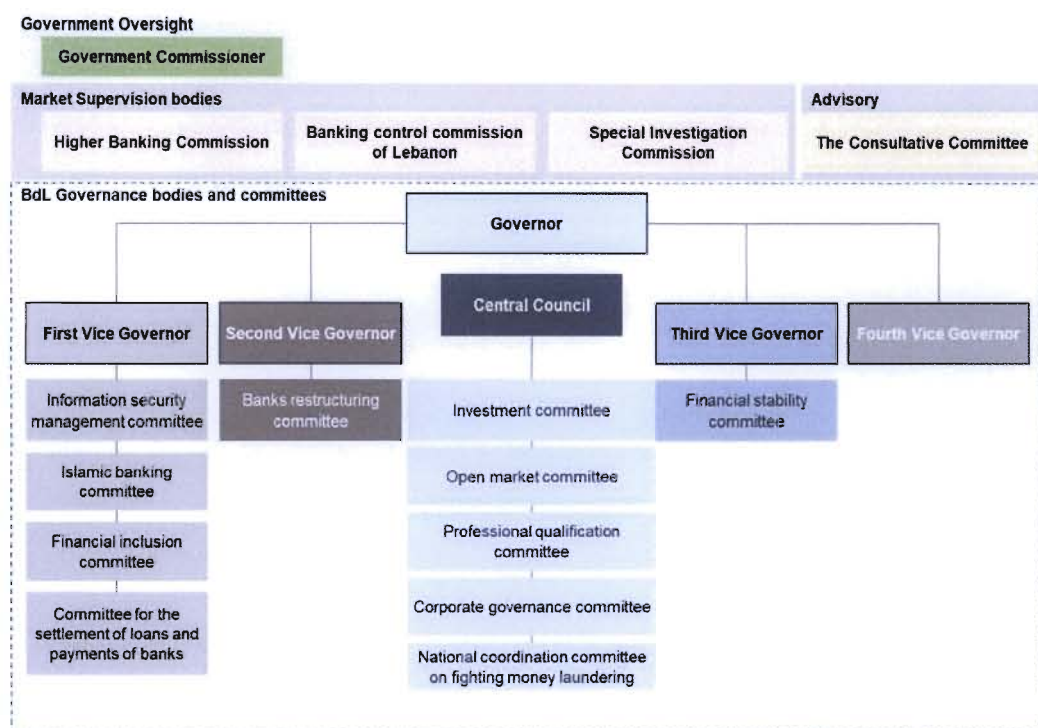
12 Unexercised scrutiny power

12.1 Summary of findings

12.1.1 The CMC establishes the legal framework for the setup, organisation and operation of BdL.

12.1.2 The CMC has instituted committees and built oversight bodies and controls to supervise the power exercised by BdL. Be it internal arrangements (governance dedicated bodies and structures) or external (Ministry of Finance (hereafter as MoF) scrutiny, government commissioner or auditors) to BdL, Lebanon has legally¹⁶⁸ defined bodies that are supposed to act as a shield to the power exercised by the BdL.

Figure 12.1 Oversight bodies around BdL¹⁶⁹



12.1.3 The key figure in this setup is the Governor of BdL, who is legislatively empowered to exercise extensive powers. However, these powers are not intended to be used without checks and supervision. For this reason, the CMC expects, both explicitly

¹⁶⁸ Articles are cited as part of each of the bodies mentioned later in this report.

¹⁶⁹ Exhibit 23: Oversight bodies as per BdL Organisation Charts throughout the year.

and implicitly, scrutiny through both internal, e.g. through the Central Council, and external e.g. through the government commissioner, mechanisms.

12.1.4 Based on our assessment and the information we have been provided with, we consider the Governor of BdL has exercised largely unscrutinised authority. This was possible due to weak governance and controls framework internally, and a largely ineffective and understaffed external supervisory mechanism.

12.1.5 The following table summarizes these findings.

Table 12.1 Summary of Governance findings

Paragraph	Governance review angle	Unexercised scrutiny power
1.2	The Governor reports into the Central Council	12.1.6 CMC empowers the CC, and by extension its members, and the Governor with powers and responsibilities. In practice, the exercise of those powers by the Governor was approved by CC with little to no challenge.
1.3	Lack of challenge by the Vice-Governors, independent nominated members of the Central Council	12.1.7 BdL has four Vice-Governors, voting members of the CC, and independently nominated by the Council of Ministers. The four Vice-Governors do not have a clear set of responsibilities nor a delegation of power from the Governor or CC that specify the span of their powers. As part of our assessment, we have recognized their responsibilities as per the departments reporting to their governorship function. Depending on their nominations ¹⁷⁰ , we have seen a change in BdL's organisation structure that suggests that key departments sit under the Governor up until June 2020. 12.1.8 Vice-Governors also sit as chair in different BdL committees which (in addition to membership of the CC) provided them with wider opportunities to scrutinise and challenge the Governor's actions. 12.1.9 Despite the above, from the meeting minutes and papers provided to us by BdL we saw little, if any, challenge.
1.4	The Governor's renewed term	12.1.10 Although the CMC sets the Governor's term a limit of six years that can be renewed indefinitely. The Governor's repeatedly renewed tenure is also, in A&M's view, a limitation to sound governance.
1.5	Absence of Risk Management arrangements	12.1.11 BdL does not have a dedicated risk management department. Although we requested specific documentation in this regard, we have not been provided with information that shows a fit for purpose risk governance and management arrangements to effectively manage the risks linked to BdL's financial positions.

¹⁷⁰ Prior to March 2019 and after June 2020

Paragraph	Governance review angle	Unexercised scrutiny power
1.6	Absence of Internal Audit	12.1.12 Bdl has an Inspection and Audit department, reporting into the Governor. We have not been provided with information that shows an effective 3 rd line of defence function. The Inspection and Audit department did not exercise its 3 rd line of defence role and thus did not provide vital assurance as to the quality of Bdl's internal control system.
1.7	Absence of scrutiny from external stakeholders and commissions	12.1.13 CMC sets an accountability framework where Bdl was required by law to report on its CC resolutions. External banking supervision commission were also created in order to oversee the banking system as a whole. 12.1.14 We have not identified any instances where challenge of Bdl's decisions was triggered.
1.8	Absence of oversight from the Government Commissioner, unable to perform its duties	12.1.15 CMC empowers the Government Commissioner to perform oversight duties on Bdl. In reality, the Government Commissioner did not exercise the powers vested in the function. 12.1.16 Based on the information and documentation reviewed, the Government Commissioner was unable to fully perform its duties due to (i) an insufficient empowerment of the function, (ii) a lack of staffing within the Government Commissariat and (iii) information withholding by Bdl.

12.2 The Governor reports into the Central Council

i) Governor's powers as per the law

12.2.1 Bdl is managed by the Governor¹⁷¹ assisted by four Vice-Governors, and the Central Council.

12.2.2 The Governor is appointed by decree from the Council of Ministers, on the proposal of the Minister of Finance¹⁷², for a renewable six-year term. He is engaged under the regulations of private law¹⁷³.

12.2.3 He must dedicate himself entirely to Bdl and withhold from taking any legislative mandate, other public function, or activity in any enterprise or professional work, irrespective of whether such activity or work is remunerated¹⁷⁴.

¹⁷¹ Article 17 CMC as modified by Law no. 4/85 of 1st April 1985

¹⁷² Article 18 CMC

¹⁷³ Article 33 CMC

¹⁷⁴ Article 20 CMC

- 12.2.4 The Governor cannot be relieved from his functions¹⁷⁵, except for physical capacity, infringement to the duties of his functions or serious mismanagement. During the term of their office, the Governor and the Vice-Governors cannot take, keep or receive any interest in a private enterprise¹⁷⁶.
- 12.2.5 The CMC¹⁷⁷ details that the Governor and Vice-Governors must be university graduates and have the experience and moral qualities required for the proper discharge of their duties.
- 12.2.6 We have been provided with the Employee handbook, dated from 1968, that details the level of salary grades and diplomas required to fulfil specific positions within BdL. The document, however, did not include any mention of the governorship functions' pre-requisites.
- 12.2.7 The Governor has the largest span of executive power¹⁷⁸ within BdL. He is in charge of executing his powers and the decisions made by the Central Council. The Governor's section 1 of the CMC¹⁷⁹ describes his main powers as following:

Table 12.2 Bdl's Governor powers

Powers	Span	Legislative References
Legal	<ul style="list-style-type: none"> - Full legal representation of BDL. - Signatory of any legal documentation on behalf of BDL and representation of BDL in any legal proceeding. - Signatory of acts, treaties, or conventions. - Authoriser of all legal actions, taker of all implementations or conservatory measures, including pledges. 	Article 20 of CMC Article 26 of CMC
Executive	<ul style="list-style-type: none"> - Sole executive authority of the administration and the management of BdL. 	Article 26 of CMC
Operational	<ul style="list-style-type: none"> - Executive authority over BdL's operating model, including but not limited to BdL's units, departments and structure and respective responsibilities, appointments and revocation of agents and officers of any rank. 	

¹⁷⁵ Article 19 CMC, infringement outline in Chapter I of Title III of the Penal Code, and violations of the provisions of Article 20 of CMC

¹⁷⁶ Article 20 CMC

¹⁷⁷ Article 18 CMC

¹⁷⁸ Article 26 CMC, decision 51 on 19/11/1964

¹⁷⁹ Articles 18 to 26 CMC

12.2.8 We have been provided with an authorised signatories' document¹⁸⁰, unsigned and undated, that lays out the delegation of powers as following:

- i) The sole signature of the Governor, where no financial limit is stated;
- ii) The signature of the Vice-Governor acting on behalf of the Governor¹⁸¹ where no financial limit is stated;
- iii) Two joint signatures from categories A and B (no further clarification was provided as to what these two categories¹⁸² relate to):
 - a) Two joint signatures from category A, with a maximum value of USD 25Mn or its equivalent in other currencies per operation;
 - b) Two joint signatures from categories A and B with a maximum value of USD 5Mn or its equivalent in other currencies per operation;
- iv) One signature from category A or two joint signatures from category B concerning any correspondence or administrative action that implies no financial obligations.

12.2.9 In the event of his absence or unavailability¹⁸³, the Governor shall be replaced by the first sub-governor, according to conditions fixed by himself and, in the event the latter is equally unavailable, by the second sub-governor. The Governor may vest all his powers in the person replacing him.

12.2.10 We have not been provided with any other documents or information regarding internal arrangement in the case of the Governor's absence.

ii) Central Council's powers

12.2.11 The Central Council or "CC" of the BDL is vested with the authority to establish the executive regulations of the CMC¹⁸⁴ and other regulations concerning the Bank's operations¹⁸⁵.

¹⁸⁰ Authorised signatories document, unsigned and undated – Page 9 only. This exhibit was provided as part of information reviewed.

¹⁸¹ Except for the prerogatives stipulated by articles 25-26 and 27 of the CMC in the case of the Governor's absence or unavailability

¹⁸² As part of the Information Request List, we have not been provided with further clarification on category A or B

¹⁸³ Article 27 CMC

¹⁸⁴ Article 33(1) CMC

¹⁸⁵ Article 33 (7) CMC

- 12.2.12 As per its statutory terms of reference, the Central Council sets the monetary and credit policies, including money supply, discounts, and lending rates. It discusses and decides, among other things, on issues concerning the banking and financial sectors, the establishment of clearing houses, the issuing of currency and on loan requests by the public sector entities¹⁸⁶.
- 12.2.13 The Central Council decides also on the rules and procedures that govern the staff and operations of the Bank, and on its annual budget and accounts.
- 12.2.14 The CMC lays out the CC's high-level charter and has the basic standard arrangements and layout of a Central Bank council charter. We have not been provided with any supporting documentation of a detailed, up-to-date terms of reference.

Table 12.3 Central Council Terms of Reference

Item	Details
Composition ¹⁸⁷	<ul style="list-style-type: none"> - The Governor, as chairman - The four Vice-Governors - The Director General of the Ministry of Finance, ex officio but strictly as member of CC - The Director General of the Ministry of Economy and Trade, ex officio but strictly as a member of CC
Frequency ¹⁸⁸	<ul style="list-style-type: none"> - CC meets whenever necessary when requested by the Governor, and at least once a month. - Minister of Finance can also ask the Governor to call for a CC.
Quorum ¹⁸⁹	<ul style="list-style-type: none"> - CC cannot meet in the absence of the Governor or his deputy, nor in the absence of any of the Director General of the Ministry of Finance or Ministry of Economy. - The presence of four members is required for "good" discussions.
Decision making ¹⁹⁰	The consensus is met whenever there is an agreement of most of the participants. In the case of equal votes, the Governor gets to decide.
Responsibilities and Powers ¹⁹¹	<ul style="list-style-type: none"> - Determines the Bank's monetary and credit policy - Establishes regulations for the application of the above - Establishes the clearing houses - Discusses matters related to issuances - Discusses the requests related to credit from the public sector - Puts in place all the framework related to the functioning of Bdl - Discusses the matters related to real estate of the Central Bank, guarantees or insurances related to real estate - Approves budget and expenditures, annual closing of accounts - Determines the mandate of the Governor and the Vice-Governors

¹⁸⁶ Statutory terms of reference of Bdl's Central Council per Decision 51 on 19/11/1964.

¹⁸⁷ Article 28 CMC

¹⁸⁸ Article 29 CMC

¹⁸⁹ Article 30 CMC

¹⁹⁰ Article 31 CMC

¹⁹¹ Article 33 CMC as modified by Law no. 8/75 of 5th March 1975

12.2.15 As part of the overall corporate governance, sound governance includes the definition of the roles and responsibilities of the relevant people, functions, bodies and committees within an institution and how they interact¹⁹². We have not been provided with any supporting documentation with a clear definition of roles or responsibilities, nor a delegation of authority of the members of the Central Council.

iii) **Central Council composition (from January 2015 to December 2020)**

12.2.16 The minutes of the Central Council reviewed show that the composition of the CC (the Governor, four Vice-Governors and two representatives from the Ministry of Economy and Finance) was effectively complete. The only exception spans from March 2019 to June 2020, where the CC did not convene considering a pending nomination of the Vice-Governors.

Table 12.4 List of CC members

Prior to March 2019	From March 2019 to June 2020	From July 2020 onwards
<p>Governor: Riad T. Salamé</p> <p><i>Vice Governors</i> 1st Vice Governor: Raed H. Charafeddine 2nd Vice Governor: Saad Andary 3rd Vice Governor: Muhammad Baasiri 4th Vice Governor: Haroutioum Samuelian</p> <p><i>Representatives of Ministry of Economy and Finance</i> Director General of the Ministry of Finance: Alain Bifani Director General of the Ministry of Economy and Trade: Alia Abbas</p>	<p>Governor: Riad T. Salamé</p>	<p>Governor: Riad T. Salamé</p> <p><i>Vice Governors</i> 1st Vice Governor: Wassim Manssouri 2nd Vice Governor: Bachir Yakzan 3rd Vice Governor: Dr. Salim Chahine 4th Vice Governor: Alexandre Mouradian</p> <p><i>Representatives of Ministry of Economy and Finance</i> (Acting) Director General of the Ministry of Finance: George Maarawi Director General of the Ministry of Economy and Trade: Mohamad Abou Haidar</p>

iv) **Central Council course of events (from January 2015 to December 2020)**

¹⁹² Exhibit 21: SS Single Supervisory Mechanism supervisory statement on governance and risk appetite, ECB – June 2016, https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm_supervisory_statement_on_governance_and_risk_appetite_201606.en.pdf

12.2.17 All CC minutes requested as part of our engagement, from January 2015 to December 2020, have been provided to us in Arabic¹⁹³ and reviewed by us as part of the audit.

12.2.18 It is noteworthy to indicate that rationales, analysis or documentation behind resolutions taken during CC were not provided in the minutes taken, nor cross-referenced with any other decision-making committee at BdL.

12.2.19 Under the assumption where the CC minutes reflect the course of the CC meeting as it happened, we understood that CC meeting structure followed a “distinctive” pattern as per the following that was different from

- i) For the period of January 2015 to March 2019, CC usually discussed (i) business as usual decisions, such as fines and other operational requests from various banks, and most importantly (ii) decisions around the financial engineering mechanism adopted by BdL.
- ii) For the period of March 2019 to June 2020, CC meetings were not held (physically and virtually) and only business as usual decisions would be issued from the General Secretariat.
- iii) After June 2020, CC meetings included the monetary policy decisions, which were labelled as such in the CC minutes.

Table 12.5 Summary of the usual structure of CC minutes (January 2015 to December 2020)

Prior to March 2019	March 19 to June 20	After June 2020
Monologue / introduction of the Governor, discussion with the Vice-Governors (if any)	Decisions from the General Secretariat based on the Governor’s mandate	Monologue / introduction of the Governor, discussion with the Vice-Governors (if any)
Decisions based on the monologue would usually have the last number of the decisions sequence (if any) including but not limited to financial engineering, real estate transactions and seigniorage		Decisions based on the monologue would usually have the last number of the decisions sequence (if any)
Decisions based on the basic circular 6116		“Monetary policy” decisions labelled (none before March 2019)
Business as usual decisions		Decisions based on the basic circular 6116

¹⁹³ This exhibit was provided as part of information reviewed.

Prior to March 2019	March 19 to June 20	After June 2020
Review reports from BCCL ¹⁹⁴ - where they would impose fine / exempt banks from fines (if any)		Business as usual decisions
Early retirement requests (if any)		Review reports from BCCL - where they would impose fine / exempt banks from fines (if any)

12.2.20 It is also noteworthy to highlight that CC meetings do not include usual executive items that would fall under the exercise of its powers; examples would include monetary policy decisions, Central Bank strategy, any risk related items (in-house or in the banking market), etc.

v) Central Council effectiveness assessment against global standards

12.2.21 The composition of the Central Council is one of the key drivers of its effectiveness. We have therefore assessed the overall composition of the CC in order to determine whether the CC members were collectively in a position to adequately perform its functions.

Table 12.6 Central Council functioning and effectiveness assessment¹⁹⁵

Item	Consideration elements	Assessment
Central Council composition		
Size	The size and structure can have an impact on the quality of debate in the CC and hence on its effectiveness. The size of a board should not adversely affect its functioning.	Considering the size of BdL, and based on international practices, we consider the size of CC as sufficient, composed of: <ul style="list-style-type: none"> - The Governor, as chairman - The four Vice-Governors - The Director General of the Ministry of Finance - The Director General of the Ministry of Economy and Trade
Structure	The structure and scope of CC should be clear in order to avoid confusion resulting from possible overlaps on some topics.	We have requested an updated charter and terms of reference for the CC, however this has not been provided. Based on our understanding, there is no further elaboration except the requirements as provided in the CMC.
Independence	Having independent members contributes to enhancing CC capacity to independently challenge senior management.	The CC has two members outside of BdL from the Ministry of Economy and Ministry of Finance. The CC did not include any independent (i.e. neither ex-officio nor executive) members.

¹⁹⁴ The Banking Control Commission of Lebanon

¹⁹⁵ Exhibit 21: SS Single Supervisory Mechanism supervisory statement on governance and risk appetite, ECB – June 2016, https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm_supervisory_statement_on_governance_and_risk_appetite_201606.en.pdf

Item	Consideration elements	Assessment
Collective knowledge and diversity	CC should possess adequate knowledge, expertise and diversity to be able to understand BdL's activities, including the main risks proportionate to the size, complexity and risk profile.	The appointing body of CC members is the Council of Ministers, and this component is outside of our scope, as it is outside of BdL's internal control. However, we have assessed the quality of debate, that shows the expertise and knowledge of CC members. Given the absence of documented scrutiny / challenge in the CC minutes, we have not been provided with sufficient information to conclude that CC possesses the right collective knowledge to counterbalance the executive power of the Governor and/or identify the risk associated with BdL's activities.
Succession planning	BdL should show that it ensures the adequate transition and continuity of activity of the Vice-Governors.	Same as above, this is outside of BdL's internal control, therefore has not been assessed. However, in day-to-day business, we would expect to have a short-term succession planning in place. We have not been provided with any documentation that lays out the case of the absence of the Governor or the Vice-Governors.
Functioning and effectiveness		
Organisation of boards	Time dedicated to debate should be sufficient, with agendas reflecting the size and complexity of BdL. It is therefore essential that CC and its main committees meet frequently and for a sufficient length of time.	CC meetings take place on a weekly basis, and last on average one and a half hour. This frequency and duration are up to global standards ¹⁹⁶ and could be considered as enough to reflect the size and the complexity of BdL topics. The minutes were largely dominated by the Governor, i.e. the meetings begin with a monologue. In all the meetings held, the Governor would usually start with a prologue on the country's political and economic situation. Based on our review of the 218 CC minutes we have been provided with, this has rarely changed and was rather unchallenged, most of the time ¹⁹⁷ , by other members.
Quality of debate and the board's capacity to independently challenge	Vice-Governors are expected to prepare thoroughly for CC and thus be in a position to identify areas in which they can challenge the management body in its executive functions.	We have requested CC agendas, all management presentations ¹⁹⁸ , and analysis papers but have not been provided with any such documentation ¹⁹⁹ . Therefore, we have assumed it did not exist. We have however been provided with a one-page analysis paper, authored by Dr Chahine presented on October 21 st , 2020 CC meeting, that detailed the money velocity analysis. That paper, from our reading and understanding of the CC minutes showed that the 1 st

¹⁹⁶ In this instance, Global standards are referred to Prudential Regulation Authority standards in the United Kingdom and the European Central Bank standards in the European Union.

¹⁹⁷ Unless specified in our conclusions later

¹⁹⁸ General management information packs, that would be presented during CC and be the basis of the discussions – either mentioned in the CC minutes or not mentioned.

¹⁹⁹ This exhibit was provided as part of information reviewed.

Item	Consideration elements	Assessment
		<p>Vice-Governor was laying the ground of his vision where the economy is driven by people's spending rather than boosted by the borrowings. The 1st Vice-Governor vision was based on a M1 velocity drop from 15 in 2017 to 1.8 in 2020; indicating that people are actually holding the money rather than spending it.</p> <p>The debate around the money supply was brief according to the minutes taken however showed a starting point of challenging the Governor's vision in late 2020.</p>
	<p>Vice-Governors are expected to play a proactive role in preparing the agendas of CC, suggesting topics to be discussed rather than leaving it to the Governor's office to set them.</p>	<p>Given the actual CC minutes, and the lack of agenda and management information, our assumption is that the CC meeting agendas and discussions content are driven by what the Governor chooses to address during his monologue.</p>
	<p>CC should regularly ensure that agendas cover a comprehensive range of topics, reflecting the size, complexity, business model and risks of BdL.</p>	<p>We have not been provided with sufficient information to confirm that CC ensures that agendas cover a comprehensive range of topics.</p> <p>As per our analysis on CC minutes patterns and based on the information provided to us, CC meetings follow a rather distinctive pattern. Based on the information we have been provided with, we have not seen any evidence that establishes that CC meetings effectively address discussions around important decisions, such as Financial Engineering decisions.</p>
	<p>BdL should develop practices to facilitate interaction among the different committees and thereby reduce information asymmetries among the Governor and the Vice-Governors.</p>	<p>While reading and understanding the CC minutes, we have not seen any mention of a specific committee that raised a concern around the decision-making process of the CC. Vice-Governors do not challenge enough the Governor in his thinking. In the majority of CC minutes, (prior to June 2020), Vice-Governors and/or ministry representatives would only support the thinking of the Governor rather than question it.</p> <p>From June 2020 onwards, and following the nomination of the new Vice-Governors, we have seen a change in challenging the Governor. Vice-Governors, specifically the 1st Vice-Governor, tend to challenge more the Governor in his thinking.</p> <p>It is noteworthy to highlight that, based on the information we have been provided with, we have not seen any decision that was vetoed by any members, prior to June 2020 or thereafter.</p> <p>These two conclusions show that Vice-Governors and the Governor either did not have access to the same level of information, and/or did not scrutinise / challenge based on the information they did have.</p>

Item	Consideration elements	Assessment
		Either way, CC members did not show sufficient capacity to independently challenge the Governor.
Interactions among board members	Excessive concentration of power, domination of the debate by an individual or a group of members, and information asymmetries among Vice-Governors reduce the quality of debate and thus impair the oversight role of CC.	As per our analysis of the CC minutes and based on our partial analysis of the non-executive committee minutes, we have been provided with, the Governor monopolizes the discussions and decisions. Before June 2019, we have not been able to see any challenge to the Governor's decisions although CC members altogether or by majority outweigh the Governor's vote. We have also not been able to see any challenge from the Government Commissioner on any decision made by the CC. Please see table on CC minutes dynamic analysis.
Quality of documentation	Shortcomings in the quality of BdL's internal documentation reduce the quality of debate of CC and as a consequence its ability to have an appropriate understanding of the risks faced by BdL.	We have requested CC agendas, all management presentations ²⁰⁰ , and analysis papers but have not been provided with any. Based on the information received, we conclude that the quality of documentation as strong. We have however been provided with a one-page analysis paper, authored by Dr Chahine presented on October 21 st 2020 CC meeting, that detailed the money velocity analysis. Based on that being the only such document, we concluded that internal communication is weak – which therefore reduces the quality of debate and limits the counterbalancing of the Governor's chain of thoughts. We also requested from the Governor a response in regard to the absence of Management Information decks, to which he replied: <i>"Central Council members conduct their due diligence in what relates to topics for discussion during board meetings each in view of his corresponding administrative oversight functions and based on information provided regularly by the relevant departments. As for the referenced management information documentation, BdL has provided whatever such documentation is available in relation to items requested in the IRL"</i> .

12.2.22 Below, is an extract of the CC minutes, showing in high-level the dynamic during the meeting and the structure of discussions.

²⁰⁰ General management information packs, that would be presented during CC and be the basis of the discussions – either mentioned in the CC minutes or not mentioned.

Table 12.7 Central Council meeting minutes dynamics (extracted version)

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
21 st Jan 2015	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> 1. Swiss Central Bank cancelled the cap between Swiss Franc and Euro which led to the improvement of Swiss Franc against the Euro by 30% and against USD by 20%. This operation relied on the trust in the Swiss Franc due to its international demand, however, this had negative impact on the markets as it led to unexpected losses. 2. The Governor has requested from the Financial Markets Authority to communicate with all banks and financial institutions in Lebanon and brokerage firms to quantify the losses incurred by the entities or their clients. The report will be presented to the Central Council as soon as it becomes ready and it will be presented to the Banking Control Commission following the cooperation concept between legal authorities. 3. The changes in the Exchange/FX market can have negative impacts on the profits of companies and impose risks on the national wealth in case there were no precautionary measures taken and following BdL's circulars. 4. To ensure the success of the Eurobond issuance and since some banks do not own USD CDs²⁰² due in April 2015, the Governor suggested allowing banks to discount CDs at different maturities. <p>- Decision 44/2/15 - Cancel Central Council decision 77/34/14 dated 3 December 2014 and replace it with the one allowing banks to discount USD CDs issued by BdL conditional on re-subscribing in the amount of Eurobonds discounted.</p>	None	<p>- Central Council approved 6 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7548.</p> <p>- Central Council approved 27 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 1 report from Banking Control Commission.</p> <p>- Central Council approved a bank's request to transfer Certificates of Deposits from its portfolio from personal to creditor status.</p> <p>- Central Council reviewed 3 reports from the Banking Control Commission regarding violations in 2014.</p>
10 th Jun 2015	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> 1. The Governor stated that the Government bond due in August is USD 500m and the Ministry of Finance did not release any issuances till date to cover the dues and because it is difficult to reach the Minister of Finance there is uncertainty whether there will 	Mr. Alan Bifani commented that there is no decision (referring to a new issuance) not to issue due to the Minister being busy.	- Central Council approved 12 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.

²⁰¹ Challenge is considered as constructively participating in the discussions, questioning a statement or a decision and/or putting the veto right.

²⁰² Certificates of Deposits

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
	<p>be a bond issuance or not.</p> <p>2. Due to non-issuance, BdL will be forced to pay for the dues which will create a monetary issue and danger on the LBP exchange rate stability in addition to providing a negative indication to the market that the Government is utilizing the BdL's reserves to pay for the dues.</p> <p>3. Out of the July and August dues worth USD 1bn BdL has USD 300m in its portfolio that will be paid to the banks which will open the opportunity for banks to exchange for the value of USD 700m.</p> <p>4. The cost will be added to the financial correction plan until 31 May 2015. LBP 29,000bn has been covered till the end of 2014 and before the decision to extend the maturity on the plan the funds available to the plan would cover the costs distributed till 2021 but BdL must work to secure a bigger reserve. The total sum due till date is LBP 48,000bn out of which LBP 33,000bn is available therefore seigniorage must be created to secure the remaining amount to provide coverage till 2045.</p> <p>5. The Governor concluded that BdL is facing an ultimatum as it either chooses a high-cost option or the country's bankruptcy. The Government suggested allowing banks and financial institutions to subscribe to USD CDs issued by BdL in exchange for Lebanese Eurobonds owned by the banks and due on 12 July 2015 and 6 August 2015</p> <p>- Decision 39/14/15 - Banks and Financial Institutions are allowed to subscribe to BdL issued USD CDs 10-year term at 6.04% and 15-year term at 6.5% in exchange for Lebanese Eurobonds owned by the banks due on 12 July 2015 and 6 August 2015.</p>		<p>- Central Council approved 16 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council rejected 3 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 1 report from Banking Control Commission regarding the decline in value of foreign bonds mortgaged against funding to the foreign financial sector at SGBL²⁰³.</p> <p>- Central Council approved a request from Real Estate and Financial Assets department for Property 232 Owner's Association to purchase section A109 of property 232 for a total value of USD 1,050,000.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7299.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7776.</p>

²⁰³ Société Générale de Banque au Liban

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
23 rd Mar 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. As a result of the meeting with Minister of Finance it was agreed to exchange LBP T-bills held in BdL portfolio for USD Eurobonds after the issuances in April and May in the value of USD 2bn. In case there was a shortage in the subscription to the issuance BdL has agreed to cover the cost of subscription from BdL's LBP T-bill portfolio. This exchange will have a positive impact on the monetary conditions as it will increase BdL's USD assets. The Governor added that he would work on liquidating the exchanged Eurobonds.</p> <p>2. It is better to maintain the current interest rate as increasing the interest rate has negative impact on the financial market and the banking sector. The Governor noted that the Gulf began borrowing and increased interest rate on USD which will provide competition to the Lebanese banking sector and therefore it is a priority to maintain high liquidity in foreign currency market.</p>	None	<p>- Central Council approved 15 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 24 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7299.</p> <p>- Central Council approved 3 employee requests for early retirement.</p>
30 th Nov 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. Financial Engineering enhanced foreign currency reserve which helped in fulfilling the Government dues till date and paid LBP 600bn out of LBP 1,600bn during 3 months.</p> <p>2. BdL is facing an internal demand on USD which appears to be a trading demand rather than from the banks purchasing USD or exchanging LBP which is due to the unavailability of USD in the region around Lebanon.</p> <p>3. After the election of Trump there is an indication of increasing interest rates globally which adds pressure to developing markets. If interest began to rise outside Lebanon on 10-year bonds from 1.85% to 2.35% this would negatively impact Lebanon as deposits would be transferred from LBP to USD.</p> <p>4. Adopting Financial Engineering was timely as BdL was able to secure USD at a lower interest than the current prevailing interest rate but BdL will still face issues in funding Lebanon in foreign currencies given the current environment.</p>	None	<p>- <u>The CC MoM was only signed by the Governor and General Secretary (members seem to have attended but did not sign)</u></p> <p>- Central Council approved 21 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 14 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 6116.</p> <p>- Central Council rejected 1 other request from</p>

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
	<p>5. The Government dues till end of 2017 are no less than USD 10bn therefore the country is in need of constant funding.</p> <p>6. Even though the Ministry of Finance is able to issue USD 3bn Eurobonds it will not be sufficient to cover the 2017 needs and there are no current indications on the USD supply in the market.</p> <p>7. Banks' assets held outside of Lebanon did not decrease due to Financial Engineering as they were approximately USD 10bn and now they are USD 860m.</p> <p>8. BdL stopped the Financial Engineering as it resulted in LBP liquidity in the market which was then absorbed and the remainder is LBP 2,500bn which is planned to be used for loans.</p> <p>9. The Government has the right over LBP 3,000bn at 5% interest for 5-year term which they can use for a new issuance.</p> <p>10. There are LBP 8,000bn medium-term deposits at BdL.</p> <p>11. After decreasing interest by 4 bases points BdL is unable to further lower interest as banks will lower interest on LBP deposits.</p> <p>12. As a result of the operation the banks has an income equivalent to LL 5,000b out of which LL 2,400b to implement BDL circulars relating to the solvency ratios as per the Basel requirements. BDL has recorded USD 5b which is 10% of GDP</p> <p>13. The Financial Engineering was open to all banks therefore banks who did not participate did so at their own will</p> <p>14. Regarding incentives, the Central Council decided on circular for an additional USD 1b</p> <p>15. 37% was allocated to various industries while the remainder was allocated to housing which pushes LL lending which is the main goal of BDL</p>		<p>various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 2 reports from the Banking Control Commission regarding violations in 2016.</p> <p>- Central Council approved a letter from Real Estate and Financial Assets Department regarding a company's offer to purchase property from BdL for USD 7m.</p> <p>- Central Council approved 3 employee requests for early retirement.</p>
28 th Dec 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. The Financial Engineering adopted by BdL has led to a fundamental change in monetary</p>	None	<p>- Central Council approved 13 requests from various banks in Lebanon to utilize the facilities provided by</p>

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
	<p>data which crystallized in the surplus in the November Expenditure Budget of USD 400m.</p> <p>2. The forecast for 2017 will be built on facts that are currently being recorded which is apparent by the decline in foreign currency, specifically USD, in developing markets due to the increase in interest on US 10-year bonds from 1.8% to 2.5% and it is anticipated that the interest will increase to more than 3% which will affect the interest on Lebanon's issuances and therefore increase public debt service.</p> <p>3. Funding needs of the Government are approximately USD 4.5bn for 2017 in addition to LBP 1.5bn debt service aside from the oil credits expected at LBP 1,400bn.</p> <p>4. Ministry of Finance has approval to issue USD 3bn Eurobonds in 2017 only.</p> <p>5. Governor stated that there is no apparent intention by the Government to reduce the deficit especially that it is possible to re-release the salaries schedule noting that 66% of LBP deficit is turned into USD taken from BdL. If it was not for the result of Financial Engineering the foreign currency reserve would have lowered beyond USD 30bn.</p>		<p>BdL under Basic Circular 6116 dated 07 March 1996.</p> <ul style="list-style-type: none"> - Central Council approved 38 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations. - Central Council approved Intermediate Decision project to amend Basic Decision 10224. - Central Council approved Intermediate Decision project to amend Basic Decision 7055. - Central Council delayed deciding on 3 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations. - Central Council approved BdL purchasing, for the purposes of providing liquidity, multiple properties from MEAB. - Central Council reviewed 1 report from the Banking Control Commission regarding violations in 2016. - Central Council approved 1 request from the Procurement and Bidding department. - Central Council delayed deciding on 1 request from the Purchasing Unit.
22 nd Feb 2017	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. The Governor mentioned an internal</p>	3. Mr. Raed Charafeddine noted the	- Central Council approved 6 requests from various banks in Lebanon to utilize

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
	<p>memorandum issued by the Banking Control Commission which was leaked in Al Akhbar newspaper noting the inaccuracy of information relating to article 151 in Money & Credit Law which imposes on everyone related to BdL in any way to maintain confidentiality for all information and documents issued.</p> <p>2. Based on the point 1 above and given that the leaked document is only available at the Banking Control Commission, it will be requested from the Chair of the Banking Control Commission to investigate and take the necessary measures against the violators.</p> <p>5. Mr. Alan Bifani presented the Government Budget topic noting that the intention is to withdraw the designations and salaries schedule from the budget and that the discussions are revolved around the tax clauses as there are pressures to increase the VAT and the 5% tax on bank deposits. In case the taxes secured funding to the Treasury in the amount of USD 500bn then the Government deficit would be USD 7,100bn or 10% of GDP. Mr Bifani further added that the size of the budget is USD 24,700bn.</p> <p>6. The Governor discussed the Government Eurobond issuance noting that the demand from banks supported this issuance and BdL will, to support this issuance, allow banks to discount BdL issued CDs to subscribe to the Eurobonds.</p> <p>- Decision 30/5/17 - banks are allowed to discount BdL issued USD CDs conditional on subscribing in the same amount to the Eurobonds.</p>	<p>reoccurrence of leaks of documents issued by the Banking Control Commission and the necessity of conducting the required investigations.</p> <p>4. Mr. Mohamad Al Baasiri suggested meeting with the Chair and Member of the Banking Control Commission to investigate the issue.</p> <p>- Decision 39/5/17 - request the Chair of the Banking Control Commission to investigate the leak of documents to newspapers which is evident for the Central Council that it is an internal memorandum issued by the commission which violates article 151 of the Money & Credit Law with an emphasis on taking the necessary measures to ensure that this does not occur again.</p>	<p>the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 21 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved closing BdL account for the year ending 31 December 2016 with a total of LBP 151,228,178,788, create General USD Provisions equivalent to LBP 75,375,000,000 and distribute the profits of 2016 of LBP 75,853,178,788 80% to Ministry of Finance and 20% for BdL.</p> <p>- Central Council reviewed 1 report from the Banking Control Commission regarding violations in 2016.</p> <p>- Central Council rejected 2 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council exempted MEAB from fines imposed for violating Basic Decision 7274.</p> <p>- Central Council approved 3 employees requests for early retirement.</p>

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
3 rd Oct 2018	<p>- BdL Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> 1. BdL Governor and Mr. Raed Sharafeddine will not be attending the IMF meetings in Bali but the BdL will be represented by Dr. Saad Alandari and Mr. Raja Abou Asli. 2. BdL is unable to reach an agreement with IMF since IMF has not responded to any of BdL communication regarding their report and due to the government not yet being formed as BdL cannot be fully responsible for Lebanon. 3. There is an improvement in the BdL's balance sheet issued in September 2018 as the commercial banks are purchasing USD and depositing in BdL. 4. BdL Governor concluded that Account 36 is being depleted quickly and the Ministry of Finance must use the National deposits at commercial banks such as Social Security instead of using BdL to repay its dues. 	None	<p>- Central Council approved 16 requests from various banks in Lebanon to utilise the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 18 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved 4 employee requests for early retirement.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision number 6116 dated 7 March 1996 attached to Basic Circular number 23.</p> <p>- Central Council approved payment of USD 250,000 to Arabnet group for a study conducted on the opportunities and challenges faced by Fintech Start-ups in Lebanon and the impact of Intermediate Circular number 331 dated 22 August 2013 on the Lebanese economy.</p>

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
5 th Dec 2018	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> 1. BdL Governor mentioned the meeting held with the Prime Minister and Finance Minister where a detailed overview of the financial situation was discussed and how commercial banks did not subscribe for the LBP T-bills due to lower interest rate which forced BdL to subscribe for the LBP T-bills to pay for Lebanon's dues which is something that cannot continue since any LBP liquidity pump to the market will increase the demand on USD and increase the inflation to approximately 7%. 2. The balance in Account 36 is approximately LBP 1,100bn only which is insufficient to repay the debt due and public sector salaries for the month of December, therefore, BdL will be forced to subscribe for the LBP T-bills to secure the public sector salaries. 3. Minister of Finance has retracted his order to pay outstanding T-bills in LBP to banks and explained that this could affect the country's position and provide inability to borrow in LBP or USD. 4. BDL Governor has agreed with the Minister of Finance to increase the interest on LBP T-bills to 10.5% to motivate banks to subscribe for the LBP T-bills and to issue LBP 2,000bn with a maturity of 10 years. Also, it was suggested that Social Security fund place its liquidity at BdL rather than commercial banks and BdL will be paying the same interest to which the Minister of Finance agreed. 5. With regards to the Eurobonds, there is a need for a new issuance to fund the country's needs as there is a settlement of USD 580m due in April 2019. 	None	<p>- Central Council approved 11 requests from various banks in Lebanon to utilise the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 12 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved 5 employee requests for early retirement.</p> <p>- Central Council approved Tangible Fixed Asset budget for 2019 at LBP 27,374,530,000 and a burden reserve at 2% which is LBP 547,490,600.</p>

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
6 th Jul 2020	<p>CC members had an extraordinary meeting following the request from the Government to subsidise the basket of needs of around USD 3900:</p> <ul style="list-style-type: none"> - Governor described the Lebanese economy as shifting towards monetary one (while looking at the monetary supply numbers). Central Council advised to request detailed financial information from the Ministry of Economy to have a full monetary picture of the country - as BdL is always being pointed out. - Central Council detailed the pricing for each of the necessary goods in the market. 	<p>Dr Shaheen repeated that BdL strategy is to protect central reserves and monetary policy. BdL described the government monetary strategy as wrong, as the council is questioning whether BdL can subsidise all the necessary goods. There should be an equilibrium between prices of goods in Lebanon, and the countries they are smuggled to.</p> <ul style="list-style-type: none"> - Central Council concluded that Ministry of Economy should be held accountable and should provide additional data. 	None taken
6 th Aug 2020	<ul style="list-style-type: none"> - CC members had an extraordinary meeting following the explosion investigation: - Governor described the situation of the country, starting from the decision of the Government not to pay interests on the Eurobonds, the revolution, Covid-19 and now the explosion. - Despite international help to the Lebanese people, Governor said that following the explosion, Lebanon will pay the price. - No country wants to help Lebanon with money, because press depicted a wrong image of Lebanon. All the reports and articles point at corruption of the government. Governor, following their responsibilities, asked all the banks to keep their doors open to serve citizens. 	<ul style="list-style-type: none"> - Dr Mansoury and Pr Yakdan disagree with the Governor where loans following Covid-19 crisis should be considered as any other loan. Governor replied that the measure was oriented to encourage banks to give loans (relieving them from interests). 	- Agreed to law project of helping people who are victims of the explosion.
28 th Oct 2020	<ul style="list-style-type: none"> - Governor reminds CC members of the country's situation. <p>1. Possibility to consider real estate revaluation, following article 154 of monetary</p>	Dr Bachir commented saying that this is a temporary solution that could	- CC delayed all money policy decisions to next meetings; except for one: Banks can buy USD from BdL at LBP 1,514 in

Date	Central Council Meeting Discussions	Challenge ²⁰⁴ by CC members	Extract of decisions
	<p>code, presented to banks (that could trigger an increase in the own funds). Dr Bachir detailed that exceptionally, a meeting was held with the department of legal affairs, where the members agreed to integrate 1/3 of the gains due to the revaluation of the fixed assets into the own funds. Dr Bachir stressed that this authorization for revaluation could send a bad signal to the press.</p> <p>2. Governor described in details a financial engineering operation (note that this operations differ from FE²⁰⁴ flow described in the mechanism papers; as it does not involve the Eurobond component because it defaulted):</p> <ul style="list-style-type: none"> i - 26/09/2020 - total FX position in banks amounted to USD 3.119bn. Banks will buy from BdL at LBP 1,514 USD equivalent, and deposit 100% of this amount at their current account (either T-bills, Term deposits, Repo) with BdL. ii - Also, banks will have to guarantee BdL it can be sold (by a simple request made by BdL) at the minimum rate. iii - With this mechanism, BdL will have made a saving on its costs of 18% per year, for the whole duration of the forfeited papers; and it will not overload its foreign currency reserves as it will keep the right of buy-back of the amounts sold to the banks. <p>The Governor concluded the challenge and debate initiated by Dr Bachir by insisting on the fact that none of the banks will be obliged to do the above-mentioned operations. Banks will be presented with both solutions, will have time to assess all the risks of these operations and can either agree or disagree.</p> <p>3. Other subject: Social Insurance. Dr Chahine, based on a study he conducted, wants to avoid putting pressure on the money supply - he advises to introduce inflation indexed long-term deposit concept, where amounts cannot be withdrawn in one go but 2.5% to 3% each month.</p> <p>The Governor stressed a key point where he is wondering who is going to pay, as the new government will not take any responsibility on this at the moment.</p> <p>Dr Bachir insisted on the fact that the</p>	<p>expose BdL to bad consequences if the LBP rate decreases to its minimum value of LBP 3,900. Dr Bachir said that if BdL reserves the right to buy back the amounts, it would not only expose/harm the "said" bank to/with dangerous consequences, but it would expose the whole banking system to a financial turmoil.</p> <p>Also he added, that it would be quite difficult to show their open exposure in their financial statements/books; detailing that the amounts are over USD 3bn in the market including their current and forward losses on their foreign currency exposures.</p> <p>- Dr Bachir presented another choice, that instead of selling the foreign currencies to BdL, banks should buy the USD directly from their customers and do the mechanism themselves. That way they would manage their exposures and not influence BdL's</p>	<p>exchange for either Term deposits, T-bills, Repos in LBP with the right for BdL to buy back these amounts with the indicated rate in the electronic platform SEYRAFA.</p> <ul style="list-style-type: none"> - CC approved decision on funding projects related to the explosion. - CC approved 4 operational/administrative requests and acknowledged one. - CC delayed 2 decisions to the next meeting and did not approve 2. <p>Other:</p> <ul style="list-style-type: none"> - Central Council approved 19 requests of early settlement of credits of individual/institutions initiated by other institutions, 1 request of debt settlement. - CC approved write-offs and requests of early settlement of credits of individual/institutions initiated by several banks. - CC approved changes in interest rates on current accounts and mortgages.

²⁰⁴ FE refers to Financial Engineering mechanism

Date	Central Council Meeting Discussions	Challenge ²⁰¹ by CC members	Extract of decisions
	responsibility of exchange currency differences costs should remain with Ministry of Finance and not BdL.	money exchange centre exposures, which insures financial prosperity in the long run. => Dr Chahine didn't agree with Dr Bachir, saying that the Governor's solution is more plausible. He detailed that BDL cannot give USD it doesn't possess via an accounting operation in its books. Dr Chahine doesn't want to have any additional losses on BDL's accounts via the Dollarization.	

vi) Exercise of decision making-responsibilities

12.2.23 Central bank laws need to allocate three distinct decision-making responsibilities to one or more bodies of the central bank²⁰⁵. Based on the information we have been provided with, pursuant to CC and its sub-committees terms of references, we have concluded the following:

- i) **Public policy formulation responsibility** falls under the Central Council and ultimately the Governor. In addition to monetary policy, this responsibility pertains to exchange rates, financial stability, payment systems soundness, and the collection, production and distribution of statistics²⁰⁶.

²⁰⁵ Exhibit 22: IMF "The role of board oversight in Central Bank Governance"; 2019; <https://www.imf.org/en/Publications/WP/Issues/2019/12/27/The-Role-of-Board-Oversight-in-Central-Bank-Governance-Key-Legal-Design-Issues-48906>

²⁰⁶ Summary of the usual structure of CC minutes (January 2015 to December 2020).

- ii) **Regulatory decision-making responsibility** falls under the Central Council and ultimately the Governor. This responsibility entails the adoption of normative decisions vis-à-vis third parties to implement monetary, exchange rate, statistical and supervisory policies²⁰⁷.
- iii) **Executive management** falls under the Central Council and ultimately the Governor. This responsibility includes the power to appoint, promote and dismiss staff, to implement monetary and other public policies entrusted to the Central Bank, to enter into financial and non-financial contracts, and to legally represent the Central Bank²⁰⁸.

12.2.24 In allocating decision-making responsibilities to decision-making bodies, central bank laws should comply with the following three general legal principles. Based on the information and information we have been provided with, the decision-making responsibilities are concentrated around the Central Council and ultimately the Governor. We have not been provided with sufficient information to conclude that BdL has robust laws that allow a sound exercise of decision-making responsibilities:

Table 12.8 Decision-making responsibilities compliance²⁰⁹ assessment

Legal principle	Definition	Findings
No Gaps, No Overlaps	To allow the central bank to function effectively, laws should allocate comprehensively and with precision all decision-making responsibilities to and between the central bank’s decision-making bodies.	Based on the CMC and the information we have been provided with, we understand that laws allocate comprehensively all the powers to the Central Council.
	Gaps can be avoided by specific legal techniques by allocating the so-called “residual powers” – the powers that are not explicitly allocated in the central bank law to any decision-making body– to one specific decision-making body of the central bank.	Based on the information and information we have been provided with, CMC laws were not clearly allocated among all BdL decision-making bodies ²¹⁰ .
Checks and Balances	Central bank laws need to provide for robust “checks and balances” with a view to avoid excessive concentration of power, which may hinder sound decision-making.	We have not been provided with sufficient information to conclude that BdL has robust frameworks in place that counterbalance the concentration of power of the Governor. The

²⁰⁷ Summary of the usual structure of CC minutes (January 2015 to December 2020)

²⁰⁸ Summary of the usual structure of CC minutes (January 2015 to December 2020)

²⁰⁹ Exhibit 22: IMF “The role of board oversight in Central Bank Governance”; 2019

²¹⁰ Terms of reference of BdL non-executive committees (excluding CC)

		information we have been given (eg the CC minutes) suggests it did not.
Unicity	As a legal entity, the central bank should be one and indivisible. Care must be taken to avoid that the decision-making of the central bank does not become fractured.	Based on the CMC, the information we have been provided with, we can conclude that Bdl is one and indivisible. Bdl's decisions are not contradictory as they all fall under the Governor.

12.3 Lack of challenge by the Vice-Governors, independent nominated members of the Central Council

i) Division of responsibility between the Vice-Governors and the Governor Vice-Governors

12.3.1 In fulfilling his role, the Governor is assisted by four Vice-Governors. The Vice-Governors are appointed by decree sanctioned by the Council of Ministers for a renewable five-year term, on the proposal of the Minister of Finance after consultation with the Governor²¹¹.

12.3.2 They are engaged under the regulations of private law; however, they must not be affiliated to any political party, discharge any public duties nor be members of any private Board of Directors²¹².

12.3.3 The four Vice-Governors cannot be relieved of their functions except for the motives designated for the Governor²¹³. We have identified that the continuity of the activity of the Central Council might be jeopardized if Vice-Governors, who may have key areas of expertise, were to depart. Usually, any systemic institution, such as Bdl, should have a succession planning.

12.3.4 As good practice, in most institutions, the profile of possible future candidates is identified in advance. In a few cases, a list of potential candidates is drawn up as a precautionary measure intended to address situations in which it might be difficult for the institution to find potential successors.

²¹¹ Article 18 CMC

²¹² Article 33 CMC

²¹³ Article 19 CMC, infringement outline in Chapter I of Title III of the Penal Code, and violations of the provisions of Article 20 of CMC

- 12.3.5 We have not been provided with any documents regarding any consideration of succession planning of Central Council members, as this might be the Council of Ministers power.
- 12.3.6 The four Vice-Governors execute functions assigned to them by the Governor. They assist the Governor in managing BdL, carrying out functions specified by him. In addition, they assume their duties as members of the Central Council.
- 12.3.7 We have not been provided with any information regarding the detailed roles of the four Vice-Governors, nor any related documentation that supports the responsibilities assigned. Depending on new nominations, their roles and responsibilities have been shifting (detailed in organisation charts section). Therefore, we have deduced their responsibilities from the organisation charts we have been provided with and which we also found in the archive's versions of BdL website (unavailable to the general public).
- 12.3.8 The Governor and the Vice-Governors have been assigned the oversight and chair of executive committees. The figure below maps all BdL committees chaired or not by the Governor and the Vice-Governors.
- 12.3.9 We were provided with responses from the Governor of BdL to our question regarding the powers of the committees other than the CC, to which he stated *"The Central Council takes decisions; the Governor executes them. The various committees aren't decision-making ones, but technical committees to help the Central Council in its decisions. Committees have no oversight power vis-à-vis the Governor, whose role is clearly stated in the Code of Money and Credit Art.26"*.
- 12.3.10 We have mapped BdL committees as following: