

Figure 12.2 Bdl non-executive committees' map



12.3.11 We have been provided with the following committees terms of reference. Some of which were either incomplete or not up to date.

Table 12.9 Terms of reference of Bdl non-executive committees (excluding CC)

Central Council related committees	
Investment Committee²¹⁴	
Composition	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development - Director of real estate and financial assets - Director of external operations - Director of financial operations <p>Non-permanent members:</p> <ul style="list-style-type: none"> - Head of the executive office
Frequency	None provided
Quorum	None provided
Decision making	None provided
Responsibilities and Powers	None provided
Open market committee	
This committee should supervise and discuss BdL's open market operations, such as purchase or sale of securities ²¹⁵ . No terms of reference were provided.	
Professional qualification committee²¹⁶	
Composition	<ul style="list-style-type: none"> - Any vice-governor designated by the Governor (chairman) - Member designated by the Banking Control Commission

²¹⁴ Following administrative note 1940 replacing text 1927 dated 28/01/2009

²¹⁵ In conformity with articles 106 to 108 of CMC

²¹⁶ Article 5 from basic decision 9286 dated 09/03/2006, following basic circular 103. This exhibit was provided as part of information reviewed.

	<ul style="list-style-type: none"> - Legal counsel - Representative of the banking association (3 members)
Frequency	Anytime at the request of its chairman
Quorum	None provided
Decision making	Reports and conclusions are sent to the designated vice-governor
Responsibilities and Powers	<ul style="list-style-type: none"> - Responsible for deciding whether specific banking industry employees, falling under the categories specified in basic circular 9286 dated 09/03/2006, are exempt for the certification process - Responsible for formulating an opinion on the equivalence of certain diplomas of the aforementioned employees
Corporate governance committee	
We have assumed that this committee is a derivative of the Corporate Governance department, that supervises and infuses the standard global practices of Corporate Governance in the banking sector. No terms of reference were provided.	
National coordination committee on fighting money laundering²¹⁷	
Composition	<ul style="list-style-type: none"> - Any vice-governor designated by the Governor (chairman) - Secretary of the investigation commission - One of the members of the Banking Control Commission - One designated member from the deputy public prosecutor - One designated member from the customs director - One designated member from the general director of the police <p>Adding to the above, the Governor suggests by this circular to add the invited members below. This request was approved by the ministries' council (1024/1 dated 31/8/2007).</p> <p>Invited members (depending on the request / subject) from:</p> <ul style="list-style-type: none"> - Ministry of justice - Ministry of finance - Home office and ministry of municipalities - Ministry of foreign affairs - Ministry of economy and trade - Beirut Exchange
Frequency	None provided
Quorum	None provided
Decision making	None provided
Responsibilities and Powers	None provided
First Vice-Governor chaired committees	
Information security management committee	
No terms of reference were provided.	
Islamic banking committee	
No terms of reference were provided.	
Financial inclusion committee	
No terms of reference were provided.	
Committee for the settlement of loans and payments of banks²¹⁸	
Composition	<ul style="list-style-type: none"> - First Vice-Governor (chairman) - Banking Control Commission (2 members)

²¹⁷ Committee launched following a Ministers Council request (dated 12/09/2007), effective on 10/07/2020. This exhibit was provided as part of information reviewed.

²¹⁸ Administrative note 2271 dated July 10th, 2020. This exhibit was provided as part of information reviewed.

	- Representative of the banking association (3 members)
Frequency	Anytime at the request of its chairman
Quorum	None provided
Decision making	Reports and conclusions are sent to the designated vice-governor
Responsibilities and Powers	<ul style="list-style-type: none"> - Analyse the settlements techniques and the accounts of the banks in the local currency - Unify the policies, legal procedures and accounting related to the settlement of loans - Establishing controls for calculating the foreign currencies that banks receive without their actual value
Second Vice-Governor chaired committees	
Bank restructuring committee	
Composition	<ul style="list-style-type: none"> - Second Vice-Governor (chairman) - Legal counsel - Head of compliance Director of the stability of the financial sector division - Banking Control Commission (2 members) - Representative of the banking association
Frequency	- Anytime at the request of its chairman
Quorum	None provided
Decision making	None provided
Responsibilities and Powers	<ul style="list-style-type: none"> - Study the amendments of basic circulars 12713 dated on 7/11/2017, and 6939 dated 25/3/1998 - Analyse the structure of the banks in Lebanon - Suggest the necessary amendments on prudential regulations - Understand the financial sector functioning and propose the necessary framework in order to preserve its safety
Third Vice-Governor chaired committees	
Financial stability committee²¹⁹	
Composition	<ul style="list-style-type: none"> - Third Vice-Governor (chairman) - President of the supervisory commission, or any of his representatives - Legal counsel - Director of the stability of the financial sector division - Director of banks - Director of the statistics and economic research division - Head of compliance
Frequency	- Anytime at the request of its chairman, at least once a month
Quorum	None provided
Decision making	The committee has the responsibility for the secrecy of the banking issue discussed, and the minutes shall be taken, and original copies kept with the Governor.
Responsibilities and Powers	<ul style="list-style-type: none"> - Activate the relations between all the supervisory bodies in order to ensure the financial stability - Define the risks that the financial sector could face - Issue recommendations to avoid the above risks from any systemic risk to incur, with the sole objective of protection of the financial sector

²¹⁹ Decision 12524, pursuant to Article 70 of CMC, published on April 21st, 2017

Fourth Vice-Governor chaired committees
None

12.3.12 We have not been provided with sufficient information relating to the minutes of BdL's key committees. However, based on the minutes of both the Investment and the Open Market Committees that we have been provided with, we have observed a lack of challenge from the Vice-Governors as permanent members.

Table 12.10 Summary of BdL's non-executive committees' minutes (excluding CC)

Central Council related committees	
Investment Committee²²⁰	
Minutes	Partially provided. We have been provided with 10 meeting minutes.
Decisions	Discussions usually start with the Governor's monologue. Money instruments decisions.
Open market committee	
Minutes	Partially provided. We have been provided with 7 meeting minutes ²²¹ – one of which undated, and 1 meeting agenda (September 22 nd , 2015).
Decisions	Discussions around the financial and economic situation of the country. From our reading and understanding of the minutes provided, this is not a decision-making committee but rather a consultative one.
Professional qualification committee²²²	
Minutes	Provided
Decisions	Exceptions to individuals' certifications in the banking sector to practice regulated functions.
Corporate governance committee	
Minutes	None provided
National coordination committee on fighting money laundering²²³	
Minutes	None provided
First Vice-Governor chaired committees	
Information security management committee	
Minutes	None provided
Islamic banking committee	
Minutes	None provided
Financial inclusion committee	
Minutes	None provided
Committee for the settlement of loans and payments of banks²²⁴	
Minutes	None provided We have been provided with 3 meeting agendas dated July 13 th , 2020, July 23 rd , 2020, and July 29 th 2020.
Second Vice-Governor chaired committees	
Bank restructuring committee	

²²⁰ Following administrative note 1940 replacing text 1927 dated 28/01/2009

²²¹ This exhibit was provided as part of information reviewed.

²²² Article 5 from basic decision 9286 dated 09/03/2006, following basic circular 103. This exhibit was provided as part of information reviewed.

²²³ Committee launched following a Ministers Council request (dated 12/09/2007), effective on 10/07/2020

²²⁴ Administrative note 2271 dated July 10th, 2020. This exhibit was provided as part of information reviewed.

Minutes	None provided
Third Vice-Governor chaired committees	
Financial stability committee²²⁵	
Minutes	Partially provided – 19 meeting minutes from 2017 to 2018
Decisions	None taken. Meeting usually discusses the financial situations of the banking sector including but not limited to the financial sector aggregates, NPLs, capital buffers.
Fourth Vice-Governor chaired committees	
None	

12.3.13 We have compiled the meeting minutes we have been provided with, and we have not been able to see sufficient challenge or analysis of the situation from the Vice-Governors.

Table 12.11 Extracts of the Financial Stability meeting minutes

Date	Members present	Committee	Discussions / Facts	Response / Lack of challenge
18 th May 2017	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Discussions were around the renewal of the mandate of the Governor and the American imposed sanctions (discussions not disclosed in the document). Then discussion around specific topics of the banking sector: Common Reporting Standard.	The conclusions of the topics discussed are capital flight, dollarization of the economy (no further analysis was provided).
4 th Oct 2017	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Discussions were around the financial situation of SME's and implementation of IFRS9 in the banking sector. A member of the committee questions the financial turmoil that is ahead of Lebanon, where assets and liabilities are not balanced in the banking sector (as the Banks' liabilities are way higher than their assets).	Vice-Governor advises that banks shall constitute additional buffers and increase their reserves.
10 th Jan 2018	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Topics of discussions were around: SWAP mechanisms with BdL, IFRS9 deployment in the banking sector, liquidity, and foreign capital. Meeting started by discussing the decrease in the Interbank rate to 4%. Then, the members discussed the proposal to impose a tax on the interests at 7%, and how this would impact the profitability of banks.	3rd Vice-Governor made the conclusion that Lebanon has seen an outflow of around USD 1bn from the banking system, and that the demand for LBP improved (no further details were provided).

²²⁵ Decision 12524, pursuant to Article 70 of CMC, published on April 21st, 2017. This exhibit was provided as part of information reviewed.

12.3.14 Regarding the Investment Committee meeting minutes²²⁶ we have been provided with, and despite our requests for further management information presentations, we have not been able to see strong challenge from the members of the committee on engaging in financial operations conducted by BdL.

Table 12.12 Extracts of the Investment Committee Minutes

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
3 rd Mar 2015	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development - Director of real estate and financial assets - Director of external operations - Director of financial operations 	Investment Committee	<p>Governor's monologue stating the following:</p> <ul style="list-style-type: none"> - IC²²⁷ policies considered as conservative were correct based on last year's results - The platform the government has designed has given BdL USD 46m in less than a year - All financial engineering approved by CC was dedicated to cover the Financial Reform Plan (USD 300m) and the seigniorage out of the TBs²²⁸(LBP 500bn). - 60% of Financial Reform Plan is already covered and 100% will be covered in the coming 2 years - Eurobonds issue has introduced USD 1bn by BdL that were held in its accounts as CDs²²⁹. USD 1bn is now outside the records and it has the possibility to issue USD 2bn. - Governor intends to issue longer term CDs i.e. to introduce to the Lebanese yield curve 20- and 30-year CDs. Scheme being prepared and will be launched soon. 	<ol style="list-style-type: none"> 1. To introduce to the Lebanese yield curve long term CDs of 20 and 30 years. 2. To see with Optimum Invest how it can move in the market. Based on that, rates given on LBP in the new platform would be reconsidered. 3. To refill CLNs²³⁰ upon every maturity until a total of USD 180m is reached. 4. Since new platform took off in March 4, 2014, it has generated USD 48.9m for the Central Bank. Turnover on the portfolio in dollars and LBP was presented. Total of USD 183mCLN will mature this year, the Governor decided to refill CLNs upon every maturity until a total of USD 180m is reached.
2 nd Jun 2015	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development 	Investment Committee	Based on a presentation, the Governor took decision to take 1-year CLNs from a foreign bank. Further, he stated that BdL had an interest in selling CDs because it generates profit to the Central Bank.	<ol style="list-style-type: none"> 1. To take 1-year CLNs with Barclays. 2. To sell BdL's CDs since it generates revenues to the Central Bank. 3. To keep the Central Bank's limit with

²²⁶ Meetings minutes of Investment Committee dated 03/03/2015, 02/06/2015, 14/09/2015, 01/01/2016, 22/03/2016, 06/06/2016, 09/12/2016, 03/10/2017, 21/06/2022. This exhibit was provided as part of information reviewed.

²²⁷ IC refers to the Investment Committee

²²⁸ Treasury Bills or T-Bills

²²⁹ Certificate of Deposit

²³⁰ Credit Linked Note

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
	<ul style="list-style-type: none"> - Director of real estate and financial assets - Director of external operations - Director of financial operations 		<p>Director of financial operations stated he would contact Antoine Salame (Optimum Invest) and get back to H.E.</p> <ul style="list-style-type: none"> - Governor asked about circular according to which the Central Bank would get revenues from fees on the financial sector and seigniorage. Director of financial operations replied that it was running, and revenues were being generated. Revenues from the platform were estimated to reach a net of USD 70m. - Director of International Operations department provided an update on foreign currencies portfolio. Records show large availability of funds and reserves. Contrarily, Director of real estate and financial assets' list shows a drop of BdL's deposits in banks. 	<p>Commerzbank at USD 650m</p> <p>4. Governor stated Central Bank's deposits should be divided taking into consideration Director of real estate and financial assets' constraints. Revenues from foreign currencies are to be forgotten now. Focus should be mainly on revenues from TBs, the platform and revenues from the financial sector.</p>
22 nd Mar 2016	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development - Director of real estate and financial assets - Director of external operations - Director of financial operations 	Investment Committee	<p>Governor started the meeting by stating the following:</p> <ul style="list-style-type: none"> - BdL's policy to remain conservative. BdL is making enough revenue from its local market without forgetting other market operations that also ensure profit. - Last year's revenue record LBP 900bn and this year BdL have already reached LBP 300bn of revenue. <p>Then discussions mentioned:</p> <ul style="list-style-type: none"> - Eurobonds are at USD 760m, USD 200m of which will mature in April, May and November. Remaining is USD 560m. <p>The Governor stated that the figure of USD 560m could rise due to an exchange of TBs in LBP with TBs in USD. This exchange will ensure a revenue in dollars.</p> <ul style="list-style-type: none"> - CLN maturity - Platform has generated since inception i.e. 1.5 years ago a capital gain of USD 122m. - Revenue from financial sector 	<ol style="list-style-type: none"> 1. To remain conservative in the Central Bank's foreign investments. 2. To place USD 250m with Credit Suisse. The limit with Credit Suisse should always remain at USD 650m. 3. To place USD 250m with CitiBank. 4. To complete the necessary subscription by paying TBs in LBP in case there were not enough subscriptions in the Ministry of Finance issue.

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>amounts to LBP 1,000bn. Governor commented that the Central Bank had paid commissions and fees during a long period in the past.</p> <ul style="list-style-type: none"> - Average rate of return 82bps with average cost 4.3%. <p>Governor stated that whatever BdL lose in dollar we are recuperating in LBP.</p> <ul style="list-style-type: none"> - Volatility has slightly dropped. <p>Governor mentioned that in case of insufficient subscriptions in the Ministry of Finance issue, the Central Bank will fill the gap and pay the TBs in LBP.</p>	
6 th Jun 2016	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development - Director of real estate and financial assets - Director of external operations - Director of financial operations 	Investment Committee	<p>Governor stated:</p> <ul style="list-style-type: none"> - "No investment opportunities for now. The market is giving us enough revenues especially with the latest operation BdL has done." <p>Director of Financial operations department commented the following:</p> <ul style="list-style-type: none"> - Operation which BdL has lately executed is done by discounting TBs at 0% and the proceeds go to BdL where the profits were USD 1bn. The estimate of profit in 2016 is USD 700m and USD 1.2bn of gross revenue. We are also selling CDs and BdL has a new ceiling. <p>Governor explained the engineering done as follows:</p> <ol style="list-style-type: none"> 1. BdL has given TBs in its portfolio into the Government's account equivalent to USD 2bn. 2. Government issued Eurobonds of USD 2bn as a counter value of TBs in LBP. 3. Banks were told that they have TBs in LBP. If they decide to give these TBs to the Central Bank, the Central Bank will pay them interest rates in advance on the life of the TB, on condition that the bank brings in as many dollars. Banks will also 	<ol style="list-style-type: none"> 1. To prepare a detailed summary reflecting the Central Bank's position after the Financial Engineering done. 2. To check why the numbers of the financial operation are not reflected in the figures presented.

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>have to buy USD 2bn of Eurobonds for the Central Bank. The gain that any bank has shall be split 50/50 with the Central Bank. And since there was very high demand, the Central Bank issues CDs of USD 1bn. The total being then USD 3bnB.</p> <p>- Both CDs of Lebanon and banks have risen. The Governor referred this to the attack on BdL.</p>	
<p>3rd Oct 2017</p>	<ul style="list-style-type: none"> - The Governor, as chairman - 1st vice-governor - 4th vice-governor - Director of organization and development - Director of real estate and financial assets - Director of external operations - Director of financial operations 	<p>Investment Committee</p>	<p>Governor introduced the meeting by stating the following:</p> <ul style="list-style-type: none"> - Saudi Arabia has issued USD 12.5bn Eurobonds at difference of 2.5% rate with the Lebanese Government. Being rated A, the issue could have been performed at lower rates. Whole region is in difficulty. BdL need to manage its portfolio in the least risky way and minimum loss possible to remain liquid. - Governor emphasized starting point would be through the Central Bank's operation with the Government, although the operations will not be enough to cover the Government's expenses. BdL was able to mop up USD 9bn of long-term deposits. Bank to collect as many dollars as possible and reduce the cost. <p>Then discussions diverted on how the communication with the Ministry of Finance regarding the exchange was ambiguous. Governor clarified that the main idea behind this exchange was to pay the price of Government EBs²³¹ and to make an issue of 1%. If BdL takes USD 2bn from the Government, it will make an exchange in TBs amounting to LBP 3,000bn. Noting that in 2017, BdL still needed from the Government</p>	<ol style="list-style-type: none"> 1. Strategy is to collect as many dollars as possible and to reduce the costs. 2. To raise the limits with BNY and HSBC as well as any other potential non-US Bank. 3. To increase the limit with DBS Singapore from USD 200m to USD300m. 4. To focus only on floating or variable rates. 5. To cooperate with Mr. Skaff on increasing the bank limits.

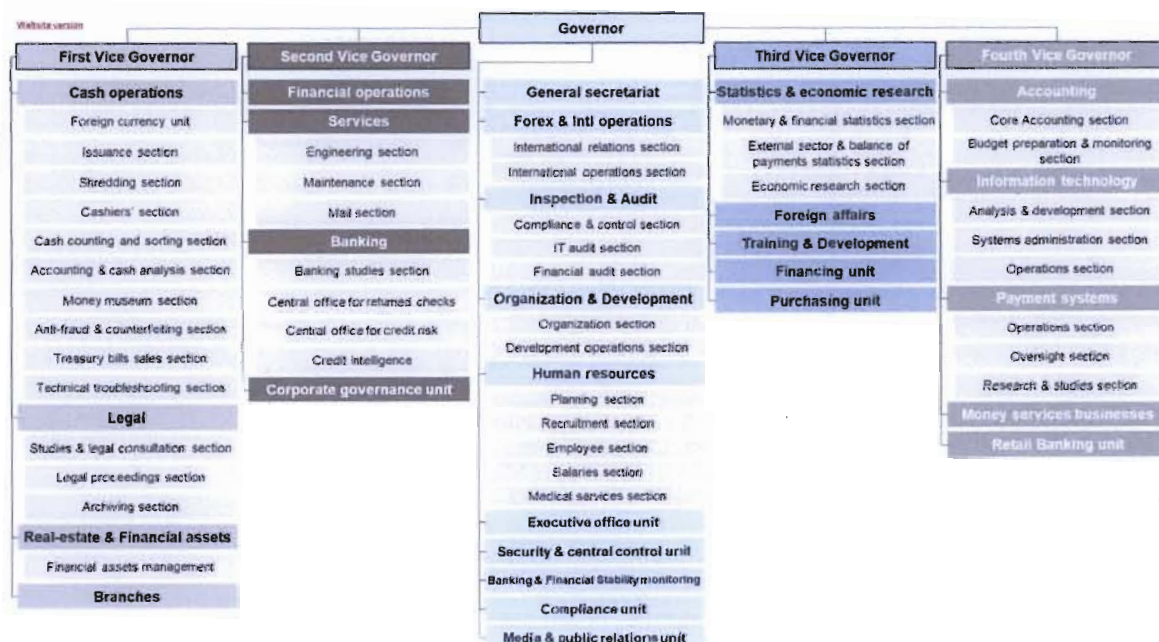
²³¹ EBs refer to government Eurobonds.

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>USD 3bn.</p> <p>Director of International Operations commented that: - BdL is forced to have an overnight deposit with the FED²³² from end of June till now between USD 1.5bn and USD 4.5bn at a rate of 1% which is considered as a loss to the Central Bank. Increasing BdL's reserves by 19% to reach USD 43bn of total reserves. Gaps still remaining in BdL's investments.</p> <p>Governor underlined he is open to any suggestion as long as it is either a variable or a floating rate.</p>	

ii) Organisation structure

12.3.15 We have been provided with the current operating organisational structure, that is also made public on BdL's website²³³.

Figure 12.3 BdL current organisation chart



²³² FED refers to Federal Reserve, the U.S Central Bank.

²³³ Exhibit 23: Organisation Charts throughout the years. Current organisation chart is available publicly on BdL's website:

<https://www.bdl.gov.lb/tabs/index/1/285/BDL-Organization-Chart.html>

12.3.16 The above organisational chart is consistent with both (i) the 2021 employees list we have been provided with as it reflects a consistent picture with the staffing data we have been provided with; and (ii) the departments' charter²³⁴ that we have also been provided with.

iii) Changes in reporting lines over the years

12.3.17 As part of our assessment, we have requested historical organisational charts, however we have not been provided with the any related documentation.

12.3.18 As part of our analysis, BdL's archives website shows multiple versions²³⁵ that indicate a change in the reporting line of some of the key departments at BdL. The main changes in the organisational structure happened around October 2020.

12.3.19 As per the archive's versions, the following highlighted key departments were directly reporting to the Governor:

- a) Real Estate & Financial Assets;
- b) Financial operations;
- c) Foreign exchange & international operations.

12.3.20 The banking department was directly linked to the first Vice-Governor.

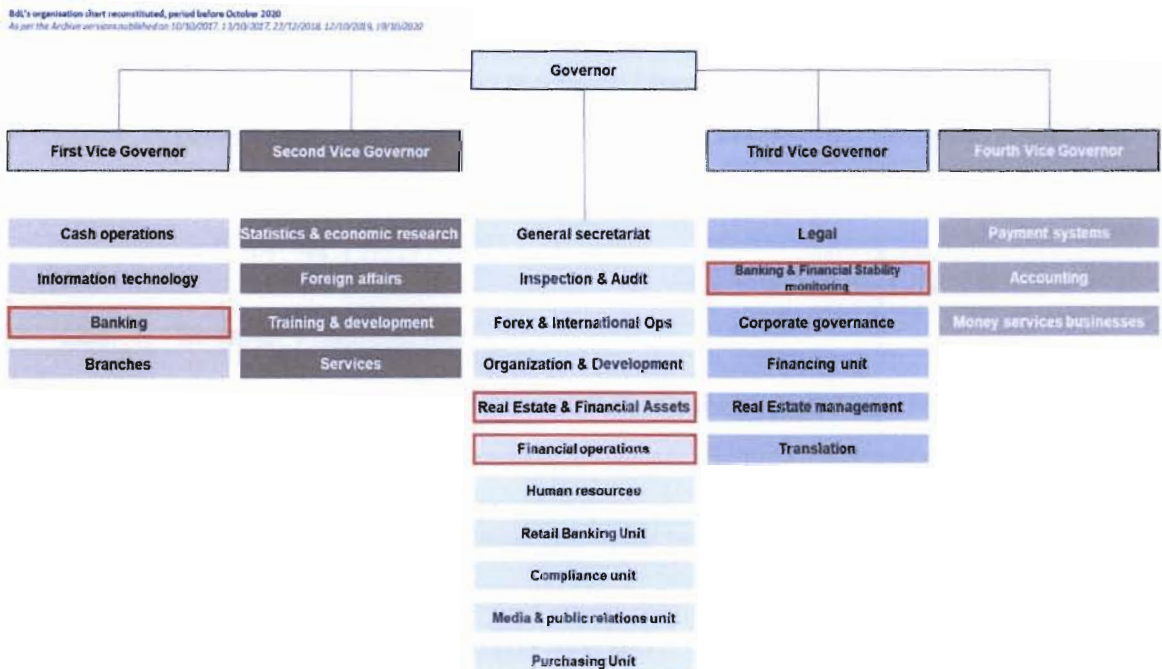
²³⁴ Document provided: General organization of the departments of BDL - Amendment to the decision 1222 published on 7 February 1978, document published in Microsoft Word version. Note: the charter is not signed, nor there is any mention of its circulation within BdL. This exhibit was provided as part of information reviewed.

²³⁵ Exhibit 23: BdL Organisation Charts throughout the years. Archive PDF versions of 10/10/2017, 13/10/2017, 22/12/2018, 12/10/2019, 25/09/2020, 19/10/2020.

Figure 12.4 Organisation structure of BdL before October 2020

12.3.21 As per the current versions²³⁶, we have been provided with, the same aforementioned departments were moved as follows:

- a) Real Estate & Financial Assets department was moved to report to the first Vice-Governor.
- b) Financial operations and banking departments were moved to report to the second Vice-Governor.
- c) Foreign exchange & international operations department remained reporting to the Governor.



²³⁶ Exhibit 23: BdL Organisation Charts throughout the years. Version published on BDL website <https://www.bdl.gov.lb/tabs/index/1/285/BDL-Organization-Chart.html>, 2021 employees list [not exhibited], departments charter document. This exhibit was provided as part of information reviewed.

Table 12.13 Length of term and reappointment of central bank governors²³⁹

	3-4 years	5-6 years	7-8 years	Not specified	Life tenure
Length of term	6	64	17	13	0
Reappointment not limited	0	45	11	0	0

12.4.3 The table above provides a frequency distribution of the statutory length of term in office for the governor. In about two thirds of the central banks, the governor's term lasts five or six years. While a few central banks have somewhat shorter or longer terms, only six do not have any term length specified in the law. Most countries' central bank statutes place no limit on the number of times the president/governor can be reappointed.

Table 12.14 Comparative overview of provisions on Governor's mandate²⁴⁰

Country	Provisions for dismissal of governor	Governor's tenure	Accountable to	Appointed solely by executive branch	Dismissed solely by executive branch
Lebanon	Yes	6 years	Described below	Yes (decree from the Council of Ministers)	Yes (not that he can be dismissed in all circumstances)
Australia	Yes	7 years	Government	Yes	Yes
Brazil	No	Not specified	National Monetary Council and Congress	No (Senate's approval is necessary)	Yes
Costa Rica	Yes	4 years	Legislative Assembly	No (Legislative Assembly's approval is necessary)	No
Euro area	Yes	8 years	EU Parliament and EU Council	No	No
India	Yes	5 years	Government	Yes	Yes
Mexico	Yes	6 years	Congress	No (Senate's approval is necessary)	No (Senate's approval is necessary)
New Zealand	Yes	5 years	Government	Yes	No (Council's Order is necessary)
Poland	Yes	6 years	Parliament	No	No
Sweden	Yes	6 years	Parliament	No	No

²³⁹ Exhibit 24: BIS – Issues in the Governance of Central Banks, a report from the Central Bank Governance Group - <https://www.bis.org/publ/othp04.pdf>

²⁴⁰ 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	Provisions for dismissal of governor	Governor's tenure	Accountable to	Appointed solely by executive branch	Dismissed solely by executive branch
Switzerland	Yes	6 years	Confederation	Yes	Yes
Turkey	Yes	5 years	Government	Yes	Yes
United States	Partial	4 years	Congress	No (Senate's approval is necessary)	Unclear

12.4.4 We did not have access nor information on the nomination nor reappointments of the Governor e.g., the basis of the nominations, such as skillset assessment, interviews or vision.

12.5 Absence of risk management arrangements

12.5.1 The capital position of a central bank²⁴¹, entrusted with the management of public funds, its profitability and the degree of financial risk protection provided by its risk control framework are crucial elements that contribute to its credibility, hence facilitating monetary policy.

12.5.2 Risks taken in central banking activities need to be analysed in a holistic manner, considering the interaction of different portfolios and operations. For that purpose, a comprehensive risk monitoring and reporting framework is required, capable of providing decision-making bodies with appropriate risk management input. As a key element of the risk management function at a central bank, the highest governance standards need to be observed, both in terms of the reporting lines and organisation of the risk management function.

12.5.3 In order to evaluate the risk management and reporting at BdL, we have based our assessment following the risk management maturity assessment of central banks²⁴² published by the IMF to all its country members.

12.5.4 We have requested a specific response from the Governor of BdL on the absence of a fit-for-purpose risk management function, to which we received the following

²⁴¹ Speech by Lorenzo Bini Smaghi, member of the executive board of the ECB, 2011 risk conference; <https://www.ecb.europa.eu/press/key/speaker/bm/html/index.en.html>

²⁴² Exhibit 25: Risk management maturity assessment of Central banks, IMF Publication December 2019; <https://www.imf.org/en/Publications/WP/Issues/2019/12/27/Risk-Management-Maturity-Assessment-at-Central-Banks-48860>

response: “BDL is governed by the articles stipulated in the Code of Money and Credit and its internal regulations. Although there is no dedicated risk management department, such functions are handled by various entities, each according to their relevant tasks, such as the Accounting Department, REFA Department, Finance Unit, FX Department, Compliance Unit, Internal Audit and Inspection Department”.

12.5.5 We have based our assessment on effective risk management practices, guided by the following high-level principles:

- a) **Accountability:** Risk management is facilitated through a clear mandate and a comprehensive approach as an integral part of all activities.
- b) **Robust governance:** Risk management roles and responsibilities are well defined with clear reporting lines, providing for independence from operations and adequate “checks and balances” at all levels, including Board oversight.
- c) **Proportionality:** Risk management is enabled by a dedicated structure (framework and processes) that is tailored to a central bank’s risk profile and operational environment and maturing along with other organizational processes.
- d) **Adequate resources:** The risk management function should have appropriate capabilities to fulfil its mandate, including the right mix of skills, competencies, tools and systems.
- e) **Transparency and effective communication:** Risk management maintains a systematic and timely monitoring and reporting on risk exposures and action plans at all levels.
- f) **Assurance and continuous improvement:** Risk management is dynamic and continually improved with experience and periodic reviews (e.g., audits and external assessments).

12.5.6 We have assessed for each one of the above principles, against information provided, covering the following sections:

- a) Risk Management Strategy and Policies;
- b) Risk Governance and Accountability;
- c) Risk Management Process, Tools, & Methodologies;
- d) Evolution and continuous improvement.

12.5.7 However essential a risk management function that has decisive role within a central bank; we have not been able, based on the information we have requested and not been provided with, to state that BdL has a fit for purpose risk management arrangements and control frameworks in place.

12.5.8 We have analysed the documentation we have been provided with and we can say that there might be some functions that could appear to embody that role, yet the absence of a proper framework shows a lack of a robust risk management function.

Table 12.15 BdL risk management maturity assessment²⁴³

Strategy & Policy		
Risk item	Assessment	Findings
Senior management's (Board and executive management) commitment and approach to risk management	The Central Bank has no formal risk management strategy, no policy and no integration with other processes. No dedicated resources committed to risk management.	No evidence has been provided. Based on the information reviewed, risk management taxonomy (aggregates, financial indicators) is not used during CC meetings.
Risk Management Strategy and Policy	No formal risk management strategy is in place. The Central Bank has no risk management policy. The approach to risk management is embedded in other policies for departmental business activities.	No evidence has been provided.
Risk taxonomies	Some definitions informally taken as taxonomies. They are informally understood and used.	The Real Estate and Financial Assets (REFA) investment strategy document describes, in high level, risk taxonomies (market, liquidity). As per the information we have been provided with, these are not raised during CC meetings.
Risk Appetite		

²⁴³ Exhibit 25: Risk management maturity assessment of Central banks, IMF Publication December 2019;
<https://www.imf.org/en/Publications/WP/Issues/2019/12/27/Risk-Management-Maturity-Assessment-at-Central-Banks-48860>

Risk item	Assessment	Findings
Risk Appetite Statement(s) and tolerance Levels	No risk appetite defined, there is no clarity around how BdL will take on or avoid certain risks or outcomes in pursuit of its activities.	No evidence has been provided.
Risk integration	Risk Management is not integrated with any other process. Risk management is informed about business continuity work and vice versa, but there is little coordination between both. IT risks are identified and assessed as other common risks using the same methodology.	No evidence has been provided.
Risk Governance and Accountability		
Risk Management Structure		
Risk item	Assessment	Findings
Central Council	There is no dedicated risk governance structure in place. CC's responsibility for risk oversight is not defined. CC's responsibility related to risk management is not articulated in its charter or its by-laws.	No evidence has been provided.
Executive (senior) Management	Executive management responsibilities for risk management are not formally defined or articulated.	No evidence has been provided.
Risk Management Committees	There is no dedicated committee for risk management and oversight of risk management activities is not ensured through other governance arrangements (e.g., Audit Committee) on an ad-hoc basis.	No evidence has been provided, absence of a clear mandate.
Risk Management Function		
Risk item	Assessment	Findings
Risk Management Function (Unit/Department)	The Central Bank does not have a central risk management team or dedicated risk management unit. The three lines of defence model is not implemented.	No evidence has been provided.
Staff complement	There are no dedicated resources allocated to risk management.	No department found or employee within the employees' list.
Staff expertise	No staff with basic knowledge of risk management principles.	No department found or employee within the employees' list.
Middle Office Function	No middle office function, possibly merged with front or back office. No clear mandate nor reporting to oversight bodies. The function lacks tools and staff skills to conduct its role.	No evidence has been provided.
Risk Management Process, Tools, & Methodologies		
Identification		
Risk item	Assessment	Findings
Structured approach	No structured risk identification.	No evidence has been provided.
Risk universe	No formal risk universe in place. In addition to common risks, the risk universe does not identify any horizontal / transversal risks (affecting multiple business areas and processes such as system failure, power shortage, etc.).	No evidence has been provided.

Risk incidents register	Informal/ad-hoc documentation of risk incidents, but no standardized templates or procedures of incident reporting.	We have been provided with the risk register identifying marginal operational risks.
Assessment & Measurement		
Risk item	Assessment	Findings
Assessment	No clear method of assessment is in place.	No evidence has been provided.
Risk heat map	There is no risk matrix (or similar) that illustrates the impact/relevance/importance of each risk. However, the values/parameters used for risk assessment are ill defined and do not allow for prioritization of the risks and respective action plans (e.g., the matrix is showing too many high risks).	No evidence has been provided.
Risk quantification	No quantification; no VaR calculation and quantitative metrics only for financial risks.	No evidence has been provided.
Risk Responses		
Risk item	Assessment	Findings
Risk treatment / Action plans	No action plans. Risk treatments/mitigation measures have not been identified for risks, and thus not converted into formal action plans and no mechanism to ensure their implementation and assessing their effectiveness. Absence of risk treatment/mitigation plans. Action plans have not been recorded. No reporting to oversight bodies.	No evidence has been provided.
Cost/Benefit analysis	No cost/benefit analysis is performed to analyze mitigation measures.	No evidence has been provided.
Accountability framework	No one is accountable for risk treatment.	No evidence has been provided.
Contingency plans	The Central Bank is not aware of its major risks, and therefore there are no contingency plans.	No evidence has been provided.
Business continuity	Business continuity function is not integrated with risk management.	No evidence has been provided.
Monitoring & Reporting		
Risk item	Assessment	Findings
Reporting mechanism	Key staff have some awareness of risk management developments; however, this information is not disseminated to a wider audience within the Central Bank. No risk performance monitoring reports are provided to senior management (Board and executive management).	No evidence has been provided.
Risk management annual report	No annual report is prepared. The oversight body is informed on ad-hoc basis.	No evidence has been provided.
Evolution and continuous improvement		
Review of risk management practices		
Risk item	Assessment	Findings
Review of risk management practices	The Bank does not have a periodic review (self-assessment) of its risk management processes and improvements are not made.	No evidence has been provided.

	No participation in international risk management initiatives (e.g., seminars, conferences, training).	
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12.5.9 As per the information provided and reviewed, we have not seen sufficient information on a fit for purpose risk management framework at BdL.

12.5.10 However, detailed basic circulars were issued to banks and financial institutions broadly in Lebanon addressing risk management arrangements and frameworks.

12.5.11 The below table shows that risks are identified amongst BdL’s leadership, however not applied in-house at BdL.

Table 12.16 Key basic circular addressing risk management framework in the banking industry

Basic Circular	Decision	CMC	CC decision	Key messages
Real Time Gross Settlement “RTGS” Self-Assessment” ²⁴⁴				<ul style="list-style-type: none"> - BdL describes how the RTGS payment settlement system is controlled - BDL describes in detail the oversight arrangement of RTGS (principle 2, Q.2.1.1), framework for comprehensive management of risks (principle 3) including but not limited to contingency planning, and recovery plans, credit risk (principle 4) including but not limited to credit exposures or sources of credit risk
121 of 26/06/2009 ²⁴⁵	10185	Articles 70, 174	24/06/2009	<ul style="list-style-type: none"> - Credit risk mitigation techniques (article 1) - Hedging against risk that may arise (article 2) - Credit risk mitigation approaches (article 5) - Use of real estate guarantee for mitigating credit risk (article 9)
75 of 26/10/2000 ²⁴⁶	7705	Articles 147, 179	25/10/2000	<ul style="list-style-type: none"> - Obligation for banks to report their credit risk financial reporting in the central credit risk system - Detailed guide on the classification of credit counterparts (loans, NPLs) in the central credit risk system
143 of 07/11/2017 ²⁴⁷	12713	Articles 70, 146, 174, 182	02/22/2017	<ul style="list-style-type: none"> - Banks and financial institutions are required, as of 1 January 2018, to apply the International Financial Reporting Standard IFRS 9 (article 1) - Banks and financial institutions must build up provisions against expected credit losses, according to the approaches that are appropriate for each type of on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk (article 6)

²⁴⁴ Word document undated and unsigned – BDL RTGS Self-Assessment questionnaire responses. This exhibit was provided as part of information reviewed.

²⁴⁵ The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>

²⁴⁶ The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>

²⁴⁷ The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>

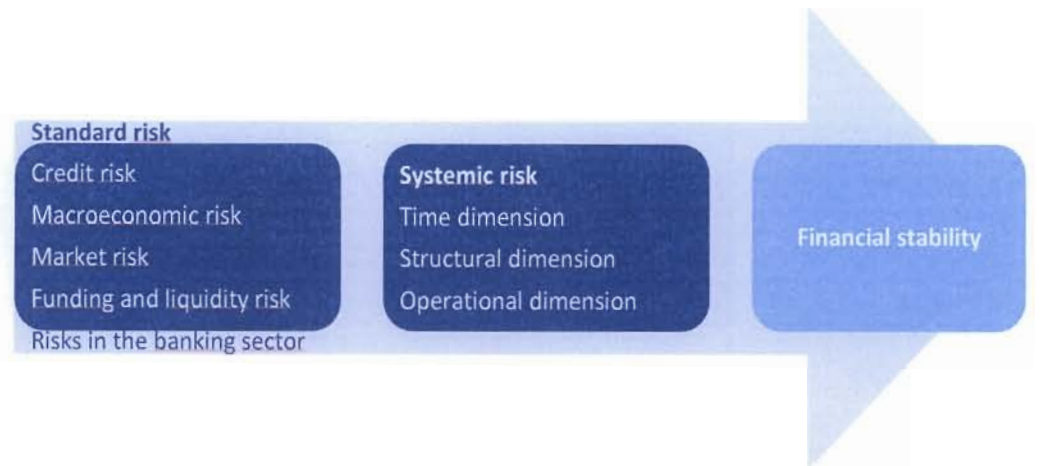
Basic Circular	Decision	CMC	CC decision	Key messages
				<ul style="list-style-type: none"> - Banks and financial institutions must assess periodically, at least quarterly, and as needed, the credit risk associated with each type of on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk (article 7) - The Board of Directors shall approve the IFRS 9 implementation policies and procedures, and shall revise them periodically (at least annually) (article 8) - The Audit Committee and the Risk Committee mentioned in Basic Decision No. 9956 of 21 July 2008, shall hold periodic meetings with the specialized committee(s) in charge of the IFRS 9 implementation. They shall also obtain periodic reports, at least quarterly, and as needed, concerning the implementation of IFRS 9 requirements, in order to keep the Board of Directors updated in this respect and assist it in the exercise of its supervisory role, notably that of ensuring the sound implementation of IFRS 9 (article 8) - The Risk Management Unit shall have a key role in ensuring compliance with IFRS 9, notably by monitoring the credit risk associated with on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk, and by setting the appropriate approach for calculating expected credit losses on these financial assets and liabilities (article 10) - BdL shall prepare balance sheet models, pursuant to the provisions of this Decision. The BCCL of Lebanon shall issue the related application guidance, in a way to ensure banks and financial institutions' compliance with IFRS 9 requirements (article 19)
526 of 03/09/2019 ²⁴⁸	13103	Articles 147 and 149	N/A	- Detailed credit categories terminology for Banks credit risk reporting to BdL

iv) Risks identification assessment against international practice

12.5.12 Central banks play a key role in ensuring economic and financial stability. It is then crucial to develop and maintain risk identification frameworks that allow to detect in good time and address potential threats to financial stability with the most appropriate policy tools.

²⁴⁸ The list of Basic Circulars is available in BdL's website: <https://www.bdl.gov.lb/laws-and-circulars.html>

Figure 12.6 Central banks risk identification²⁴⁹



12.5.13 Based on information we have been provided with and have reviewed, BdL did not provide sufficient information that indicates an appropriate and transparent risk identification.

12.5.14 Our assessment of BdL’s risk identification is based on the review of the below information:

- ii) Any relevant documentation produced; and
- iii) Any CC or related executive committees’ discussions.

Table 12.17 BdL risks identification assessment

Risk	Standard taxonomy	Definition	Findings
Standard	Credit risk	The potential that the borrowing counterparty in a debt contract will fail to meet its obligations in accordance with agreed terms.	We have not been able to review sufficient information as to whether this was assessed by BdL, including but not limited to aggregate indicators of counterparties financial position, corporates financial position, real estate market.
	Macroeconomic risk	Risks from the external environment refer to the potential consequences for the country’s financial system of the negative economic, financial or political performance of those countries in which the said	CC discussed on many occasions the international environment indicators (either during the Governor’s monologue or through discussions with the Vice-Governors), Lebanon’s current accounts imbalances, public sector vulnerabilities (high level discussions) and inflation (high level discussions).

²⁴⁹ Exhibit 26: How do Central banks identify risks, a survey of indicators – September 2021, Banco De Espana; <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriasdas/DocumentosOcasionalas/21/Files/do2125e.pdf>

Risk	Standard taxonomy	Definition	Findings
		country's companies and banks have higher investment positions.	However, we have not been able to review sufficient information or analysis relating to adverse scenario analysis.
	Market risk	Defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.	We have not been able to review sufficient information as to whether volatility measures were assessed by BdL.
	Funding and liquidity risk	Funding liquidity is the ability to settle obligations when due. Consequently, funding liquidity risk is related to the possibility of failing to settle obligations with immediacy over a specific horizon.	We have not been able to review sufficient information as to whether the funding and liquidity risks were assessed or quantified by BdL. However, CC discussed on many occasions Lebanon's exposure to a funding crisis.
	Risks in the banking sector	Solvency and profitability of banks analysis.	Based on the information we have been able to review, including public publications, BdL runs banking sector analysis. It also issues stress testing requirements to the banking sector. We have not been able to review sufficient analysis documentation relating to these stress tests.
Systemic	Time dimension	Systemic risk can be analysed either in its time dimension or in its cross-sectional dimension. The time dimension is related to the build-up of risks over time and the pro-cyclical accumulation of financial vulnerabilities.	We have not been able to review sufficient information as to whether the systemic risk was assessed by BdL.
	Heatmaps	Visual tool that issues early warnings about potential systemic risks which merit in-depth analysis.	We have not been able to review sufficient information relating to risk heatmaps.
	Financial stress indices	Real-time measure of systemic risk that summarises high frequency financial data, usually daily or weekly, from different segments to proxy the current state of uncertainty of a specific financial system in a single number.	We have not been able to review sufficient information relating to financial stress indices.

Risk	Standard taxonomy	Definition	Findings
	Conditional capital shortfall-based measures	Capital that a financial institution would need under stressed conditions.	We have not been able to review sufficient information relating to capital shortfall analysis.
	Structural Dimension	Structural risks are related to long-term risks of a non-cyclical nature and to risks stemming from structural features of the financial system or the wider economy.	We have not been able to review sufficient information as to whether the systemic risk was assessed by BdL.
	Interconnectedness among banks based on network analysis	Analysis of the network of financial exposures among financial institutions, such as banks.	We have not been able to review sufficient information relating to a banking network analysis.
	Interconnectedness across financial sectors: direct and indirect interconnectedness	Analysis of counterpart exposures and relationships (assets and liabilities), sectors, markets or instruments.	We have not been able to review sufficient information relating to counterparts' exposures and relationships analysis.
	Operational dimension	Risk of losses resulting from inadequate or failed internal processes, people and systems, or external events (such as cyber-risks).	We have not been able to review sufficient information relating to operational risk analysis.

v) Risk management framework and the three-line of defence model

12.5.15 Effective central banks must have the three lines of defence model in place.

Figure 12.7 Three lines of defence model structure²⁵⁰



12.5.16 Although, based on the information we have been provided with, BdL did not have a proper three lines of defence model, we have been provided with partial information on the operational structure of some departments within BdL that seem to have a basic 1st line of defence function.

Table 12.18 Accounting department controls mapping²⁵¹

Core Banking Controls	
Daily Closing Procedure	<ul style="list-style-type: none"> Closed on a daily basis using different checking software programs. In the middle of the month interest is calculated for accrual reasons before the interim balance sheet while at the end of month interest is also matured. 25th of each month is the maturity for employee current accounts. In addition to all the daily closing procedure controls, a few extra programs are run. All financial client accounts are linked to RTGS. End of year closing is similar to end of month, however with extra controls. Every morning a set of reports are printed.
Account Management and Control	<ul style="list-style-type: none"> Controls around account opening, opening new ledgers (requires a request to IT department)
Manual Entries	<ul style="list-style-type: none"> Journal entries prepared by accounting department are mostly automatic and some are manual. Automated entries are for interest and tax purposes, whereas manual entries are for employee retirement, semi-annual bank loans against TBs, Revaluation – Financial Assets, Revaluation – IMF, prior year reconciliation, end of year adjusting entries. Manual entries follow a maker-checker process.

²⁵⁰ A&M analysis

²⁵¹ Accounting department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.

Core Banking Controls	
Tax on Interest Declaration	<ul style="list-style-type: none"> Relevant departments prepare their own declaration regarding the size of their monthly operations and total tax. Accounting department prints out statement of accounts and other reports to recalculate each declaration.
Financial System Controls	
Periodical Controls on the Financial System	<ul style="list-style-type: none"> Monthly controls around FX positions Quarterly controls around purchasing and cost management accounts, fixed asset accounts, payable accounts and receivable accounts Bimonthly controls around cash clearing accounts
Procedural Controls	<ul style="list-style-type: none"> All procedures are reviewed by the Accounting Department
Mid & End of month closing Oracle	<ul style="list-style-type: none"> As per Article 107 CMC, BdL is required to present an interim balance sheet at the mid and end of month. In order to do that, all Oracle modules and controls are suspended (payables, receivables, fixed assets, payroll, general ledger, segment opening and combinations on Oracle)
End of Year Oracle closing controls	<ul style="list-style-type: none"> End of year closing process on Oracle is performed on multiple layers and steps including prerequisites before the end of last working day, last day operations before final closing and final closing operations
The Payment Form	<ul style="list-style-type: none"> Supplier: 'Active' for compliant and existing supplier in the system and 'inactive' for ones that are not used. Budget: Shows the current budget and the available one after deducting the pending invoices that need to be paid from the same account. Expense budget control: Below LBP 3 million, accounting department manager will sign budget. Expense control: Above LBP 5 million invoices, sent to the Governor. Below LBP 5 million invoices are sent for payment in accordance with circulars 2041 and 8/1161.
General Budget Amendment Controls (Monetary Circular)	<ul style="list-style-type: none"> Below LBP 100m: Governor's approval for increase in budget according to article 42. Above LBP 100m: Central Council approval for amendment.
Prior Year Adjustment, Provision Creation and Return	<ul style="list-style-type: none"> Below LBP 3m, accounting department management will sign LBP 3m – LBP 100m Governor's approval required Above LBP 100m: Central Council's approval required Provision control: Based on trial balance a control is done to check the provision account deficiency, and then sent to the Governor for approval and amendment
Placement and Reconciliation Controls	
Placement	<ul style="list-style-type: none"> Placements: control over BdL's placements with foreign banks on a daily basis
Reconciliation	<ul style="list-style-type: none"> Reconciliation: Control over BdL's accounts in correspondent banks and denominated in foreign currencies, by doing a monthly reconciliation between statement of accounts and swift.

12.5.17 The Foreign Exchange and International Operations department describes its procedures²⁵² in a detailed structure. It is one of the only departments that lays out

²⁵² Foreign Exchange and International Operations department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.

an authority matrix as per below, where each transaction has to be authorised by three individuals:

- i) One by an employee;
- ii) Another by the chief of section; and
- iii) A final clearance signature by the chief of division.

Table 12.19 Foreign Exchange and International Operations department procedures²⁵³ and controls mapping

Dealing room	
Investments (assets) & Forex	<ul style="list-style-type: none"> • Dealers use Reuters Dealing or Bloomberg to check market rates. Investments are placed as per the risk management matrix that sets different types of limits. • Dealt deals are written down on a blotter, printed and signed. • Two tickets are printed out by deal, one kept in the dealing room. • Tickets are entered on ZPL²⁵⁴ by the dealer. • Tickets are checked by middle office to make sure that best market rates are selected and then signed. • Tickets and blotter are handed over to the treasurer for signing before being sent to the back office for execution.
Local deposits (liabilities)	<ul style="list-style-type: none"> • Issue of matrix by xx (not specified) and then upload to Reuters • Dealers take local financial sector deposits by recorded phone calls or on Reuters dealing and write them down on a blotter • Blotter is entered on ZPL by the dealer • Matrix and blotter are handed over to the middle office for checking and signing • Matrix and blotter are sent to treasurer for financial approval and signature • Matrix and blotter are handed over to the back office for execution
Intervention	<p>Intervention to buy or sell the national currency against USD</p> <ul style="list-style-type: none"> • Dealers receive calls on recorded phone or Reuters dealing • Deals are written down on a blotter and signed by the dealers • Deals are entered on VYX (main frame) • Deals are sent to the treasurer for final approval and signature • Deals are handed over to the back office for execution
Back office	
Investments (assets) & Forex	<p>On trade date</p> <ul style="list-style-type: none"> • Back office receives the blotter and tickets, checks the operations on both hard copies and ZPL entries then signs • Accounting entries checking • Swift preparation – two signatures required: by the generator of the swift and by the supervisor • Swifts are sent to relevant Hierarchy for final signing • Swifts are handed over to the swift room for sending, copies are sent to back office, rechecked and signed <p>On value date</p>

²⁵³ Foreign Exchange and International Operations department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.

²⁵⁴ ZPL refers to Zebra Programming Language

	<ul style="list-style-type: none"> Back office rechecks the entries moved to ZNA²⁵⁵ as well as generated swifts
Local deposits	<p>On trade date</p> <ul style="list-style-type: none"> Back office receives the blotter, checks the operations on both hard copies and ZPL entries and then signs Accounting entries checking Confirmation swift's preparation (automatically generated by the system) Asked copies are received back by the back office at the end of day and rechecked and signed Both sent and received confirmations are matched automatically by the system <p>On value date</p> <ul style="list-style-type: none"> Back office rechecks the entries moved to ZNA and generated swifts
Intervention	<p>On trade date</p> <ul style="list-style-type: none"> Back office receives the blotter, checks the operations on both hard copies and VYX entries and then signs Accounting entries checking Confirmation swift's preparation Asked copies are received back by the back office and rechecked and signed Both sent and received confirmations are matched automatically by the system <p>On value date</p> <ul style="list-style-type: none"> Back office rechecks the entries moved to ZNA as well as generated swifts
Cross border transactions	<p>Incoming funds</p> <ul style="list-style-type: none"> Local banks send an MT210²⁵⁶ to BdL to credit its account with USD on value date X. BdL credits the banks account on the specified value date Swifts are received in the swift room, handed over to the supervisor for signing, then handed over to the back office for execution on ZNA The back office will wait during the day to receive the confirmation of credit from its correspondents or checks on X+1 the amount on the statement of account sent by the correspondents. In case of non-receipt of the amount, a reversal is applied as well as a penalty <p>Outgoing funds</p> <ul style="list-style-type: none"> Local banks send their request by MT200 Swifts are received by the swift room, handed over to the supervisor, signed then handed over to the back office Back office generates the necessary swift messages automatically from the system Each message will bear at least two signatures from the back office (employee and supervisor) along with the one executing the necessary accounting entries Message handed over to deputy director for approval and signing, then swift sent to swift room and copies checked and signed
End of day procedure	<ul style="list-style-type: none"> Consolidation of accounting entries and correspondents closing balances on both main frame and back office excel sheet Consolidation of correspondent closing balances with the deputy director or director (make necessary replenishment or transfers)

²⁵⁵ ZNA refers to a software

²⁵⁶ MT210 refers to a form filled by local banks

Correspondents' statements of accounts consolidation	<ul style="list-style-type: none"> Consolidation of accounting entries and correspondents' statements of accounts on both main frame and back office excel sheet
Transfers unit	
Workflow procedure	<p>Outwards</p> <ul style="list-style-type: none"> Cross border requests sent by public entities or internal departments are received at the secretariat office which references every received document in a signatory book for traceable records They are presented afterwards to the Executive director for review, approval and marking his signature Cross border requests are submitted later to the head of public sector payments who reviews them first and then hands them over to the Chief of transfers unit who signs upon the receipt next to the reference mentioned in the signatory book The chief of the transfers unit records these payments in a precise Excel sheet template including all the details of the transactions then distributes the documents among two employees who are fully responsible for the preparation stage that entails reviewing the details of the SWIFT message The full transaction is submitted to the assistant chief for a first control, and ensures that the wire payments are in compliance with international regulations and policies by checking the beneficiaries' names and other requirements on Reuters' platform Reports generated are revised by compliance unit Transaction is checked once again, and the final transfer is executed SWIFT messages are usually signed by three employees: assistant chief, chief and the head of the public sector payments Cross border request is handed over for a final examination to the head of public sector payments who signs the swift and completes route to correspondent banks <p>Inwards</p> <ul style="list-style-type: none"> Local and international banks send swift messages in favor of public entities holding accounts at the Central Bank Swifts are received in the swift room, handed over to the chief of transfers unit for signing and then given to the preparation team for entry in the accounting system, then assistant chief controls the accounting entries Chief controls as well then sends to the official accounting journal
End of day procedure	<ul style="list-style-type: none"> Consolidation of accounting entries and balances of mirror accounts with correspondents' banks End of day reports, FX positions and balances of mirror accounts with correspondent banks used for daily reconciliation are sent to the head of public sectors and forwarded to the executive director at the end of each day for final consolidation
Correspondents' statement of accounts consolidation	<ul style="list-style-type: none"> Consolidation received the day/days after on both accounting system and transfers unit daily excel sheet template
L/C	<ul style="list-style-type: none"> Verification of authenticity and signatures Checking accounting entries Transfer of the operation to GL Checking and routing SWIFTS

12.5.18 The most detailed layout of internal controls at BdL is the Real Estate and Financial Assets (“REFA”) department. The following matrix illustrates some of the key activities performed by REFA and the relevant controls associated with them.

Table 12.20 Real Estate and Financial Assets controls mapping²⁵⁷

Activity	Internal Process / Control	Independent Review	External Auditor
Selection of Correspondent Banks and Determination of Investment Limits	Initiation: REFA Authorisation: Governor Processing: REFA Recording: IT	Investment Committee FX department	None
Monitoring compliance with the determined limits for investments	Initiation: REFA Authorisation: Governor Processing: REFA Recording: IT	FX department	None
Inception of a loan	Initiation: Governor Authorisation: Central Council Processing: Legal Department / REFA Recording: Payment Systems Department	REFA (Financial Assets, and Accounting)	Not known
Closing and Interest Calculation, accrual and collection	Initiation: Central Accounting Department. Authorisation: REFA Processing: REFA Recording: Payment Systems Department / Central Accounting	REFA (Accounting)	Not known
Provision setting	Initiation: REFA Authorisation: Governor Processing: REFA Recording: Central Accounting	REFA (Accounting)	Not known
Acquisition of the shares of a company or bank in settlement of bad debts and their sale	Initiation: Governor Authorisation: Central Council Processing: Legal Department / REFA Recording: Payment Systems Department	REFA	Not known
Acquisition of real estate properties from banks in need of liquidity	Initiation: Governor Authorisation: Central Council Processing: Legal Department / REFA Recording: REFA Accounting Section	Central Council approval	BdL’s auditor
Sale of Assets	Initiation: REFA Authorisation: Central Council Processing: Legal Department / REFA Recording: REFA Accounting Section	Central Council approval	BdL’s auditor

²⁵⁷ REFA department internal controls document. This exhibit was provided as part of information reviewed.

- 12.5.19 Based on the above, most inception decisions (either for loan disbursement, acquisition of shares, acquisition of real estate property) are ‘initiated’ by the Governor and sale is either initiated by a specific department (e.g., REFA) or the Governor.
- 12.5.20 It is not clear what ‘initiation’ means in this context, and if actual practice matches what has been presented in the document. The independent review aspect is mostly fulfilled by either the Accounting and Internal Control Department, or by the presentation and approval from the Central Council. There is no further elaboration of the criteria utilised for three lines of defence challenge.
- 12.5.21 While the “who” aspect of internal control has been clarified, it is not clear “what” is tested and the criteria behind this, or “how” this review/testing is performed from a three lines of defence perspective. Further, it is not clear if the policy matches practice as most loans are written-off by the Governor (e.g., see all CC minutes reviewed from 2015 to 2020) and not the Central Account Department as proposed in the procedure.
- 12.5.22 We have requested but not been provided with any further documentation on the operation and risk management within the REFA. There is no evidence provided which gives assurance that REFA is operating within its mandate and the risks associated with the department are being adequately managed.
- 12.5.23 We have been provided with the procurement unit (“PU”) process and controls mapping²⁵⁸, where we have a clear layout of the authority matrix, concentrated around the Governor’s approval, as following:
- i) Governor preliminary approval on the purchasing and on the method of purchasing;
 - ii) Choosing bidders by head of procurement unit;
 - iii) Control of prices comparison internally at procurement unit and approved by head of procurement unit;
 - iv) Recommend awarding a bidder by SD or IT;
 - v) Governor approves awarding a specific bidder;

²⁵⁸ The procurement unit process and controls mapping document. This exhibit was provided as part of information reviewed.

vi) Approval on purchase order by head of procurement unit.

Table 12.21 Procurement unit controls mapping²⁵⁹

Activity	Internal Process / Control
Request for quotation (RFQ): choosing bidder and sending them the request for quotation by email	<p>Initiation: Services or IT departments with Governor preliminary approval</p> <p>Authorisation: Governor (on purchasing and method of purchasing)</p> <p>Processing: PU</p> <p>Recording: Emails for bidders</p>
Prices comparison	<p>Initiation: PU</p> <p>Authorisation: Head of PU</p> <p>Processing: controlled by PU and sent by DMS to services or IT departments</p> <p>Recording: DMS and scanned full offers</p>
Purchase order: issuing purchase order to inform the awarded bidder	<p>Initiation: Governor approval</p> <p>Authorisation: Governor approval, Head of PU</p> <p>Processing: Governor sends approval to PU, PU (on Oracle)</p> <p>Recording: DMS for all documents related to the purchase</p>
Suppliers' management file: entry and update of all suppliers' data (compliance checks and approval)	<p>Initiation: PU (for RFQ), any unit if supplier paid through direct invoice only</p> <p>Authorisation: PU, Head of PU</p> <p>Processing: Updates on Oracle, legal file completion is approved by compliance by mail (compliance executed on Reuters), any modification of IBAN is sent for information to Audit department</p> <p>Recording: Emails from and to suppliers to complete their files, Oracle, TRSD</p>
Fixed assets preparation and modifications	<p>Preparation: consolidation of fixed assets needs for all BdL departments and branches. The budget is entered on Hyperion²⁶⁰, approved by services department, IT department and heads of units. PU enters the prices of the requested items and communicates the approved budgets with all the departments.</p> <p>Initiation: PU (1st week of September)</p> <p>Authorisation: Sent to Governor for CC approval</p> <p>Processing: PU consolidates, controls, and approves estimated prices. Then PU prepares budget for Governor</p> <p>Recording: Hyperion</p> <p>Modifications: increases in or transfers of fixed asset budget on Hyperion by PU</p> <p>Initiation: Services or IT departments request Governor approval. PU enters it on Hyperion as per Governor's approval</p> <p>Authorisation: Governor</p> <p>Processing: If budget is over, SD or IT send the Governor a request to increase or transfer budget; accounting and ODD are notified</p> <p>Recording: Central Accounting</p>

12.6 Absence of an Internal Audit function

12.6.1 Internal audit (IA) approach should be risk-based and in conformity with international standards and allow for flexibility to respond to the evolution of the

²⁵⁹ The procurement unit process and controls mapping document. This exhibit was provided as part of information reviewed.

²⁶⁰ Oracle Hyperion is a BI (Business Intelligence) and BPM (Business Process Management) tool

central bank's risk profile and emerging vulnerabilities in its control environment²⁶¹.

Table 12.22 Bdl's inspection and audit function assessment²⁶²

IA mechanism item	Assessment	Conclusion
Organizational independence and authority	IA independence from the governing body is a pre-requisite for its mandate to provide assurance on the internal control environment. To do so, the IA function should conduct its work objectively and without interference and be perceived to do so. The IA function reports to the Governor as per the various organizational charts.	The IA function reports to the Governor as per the various organizational charts.
Oversight	The organizational independence of IA is reinforced through accountability of the function to an oversight body. The IA function reports to the Governor as per the various organizational charts.	We have not been able to review sufficient information to conclude that IA reports into CC.
Mandate	IA function is not appropriately recognized by management or not at the right level of authority/hierarchy within the structure of the Central Bank to fulfil its mandate.	We have not been able to review sufficient information to conclude that IA is recognized as a 3 rd line of defence.
Staffing level and competencies	The IA function should have sufficient resources to fulfil its role, which should include the right mix of seniority, and professional skills and competencies required to audit high risk areas. We have not been provided with sufficient information that describes the proficiency of internal auditors demonstrated through appropriate qualifications and formal professional certifications, as well as training and continuous development programs.	We have not been able to review sufficient information to conclude that IA is properly staffed.
Audit approach	The methodology and practices adopted by the IA function to set its scope of work, and plan and execute its activities. We have seen high-level description of the IA role in Bdl's website. However, we have not been able to review any other related documentation or information.	We have not been able to review sufficient information to conclude that IA is has a fit for purpose audit approach.
Reporting and monitoring	Communication of audit and inspection findings, periodic reporting on risk exposures and controls weaknesses. We have not been able to review any related documentation or information. In reviewing the CC minutes, we have not been able to review any IA related item.	We have not been able to review sufficient information to conclude that IA properly reports its

²⁶¹ Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>

²⁶² Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>

IA mechanism item	Assessment	Conclusion
		audit and inspection findings.
Quality assurance and improvement program	Independent external quality assessments every five years and action plans to address areas for improvement. We have not been able to review any related documentation or information.	We have not been able to review sufficient information to conclude that a quality assurance is conducted.

12.6.2 As described on the Bdl's website, and in the general organization of Bdl's departments²⁶³, the Inspection and Audit Department is responsible for IA and inspection procedures at Bdl and its branches, including records, operations, assets, and accounts. It suggests measures for the improvement of administration. This department is composed of the following:

- i) **General Control Division:** make sure that all the departments, their related operations and individuals are operating within the procedures' framework (on a daily basis); make sure that everything falls within the related decisions, policies and procedures.
- ii) **Auditing Division:** make sure that everything is operating in respect of defined parameters (cited as parameters in the document); make sure that accounting related operations are password protected and only authorized individuals manipulate them; make sure that any breach is reported through automated systems messages.
- iii) **Financial Control Division:** supervise and review all the bills related to expenses, medical, hospital and social security are review and reconcile with their related contract; audit tax related expenses; verify the registered entries on the P&L; make sure that the contracts signed are well executed.

12.6.3 We have not been provided with any relevant documentation as to the duties performed by the Inspection and Audit department, and how the three lines of defence model is applied.

²⁶³ <https://www.bdl.gov.lb/tabs/index/1/140/Departments.html>

12.6.4 We have been provided with the following documentation that does not show a full picture of the activities of the department:

- i) Complaints handling procedure flowchart²⁶⁴ which details the flowchart of written complaints made formally to the IA department;
- ii) A table of the complaints and/or incidents as set out below, none of which we have been provided with details for:

Table 12.23 Table of Inspection and Audit department complaints

Year	Incidents	Violation of Bdl employees' by-laws	Violation of Bdl rules, regulations and internal memos	Total of complaints
2016		2	2	4
2017		1	2	3
2018		1	6	7
2019	1	4	4	9
2020		1	5	6
Total of complaints	1	9	19	29
Of which reported to the Governor	21			

- iii) We have requested additional information and received a total of 42 documents, part of the IA Incidents reports. The reports were provided in Arabic, from the IA division and addressed to the attention of the Governor. The incidents reports provided relate to minor operational incidents as part of the day-to-day business of the Central Bank. Based on the information received and reviewed, we have not been able to confirm that the IA was fully performing its assigned duties as to ensuring a periodic reporting to the governing body of Bdl on risk and controls. Below is an extract of the documentation received:

Table 12.24 Extracted table of the IA Incidents Reports

File name	English title	Sender	Receiver	Reference number	Date	Description
حادث داخل الموقف المفتوح	Statement on accident in the parking lot	Inspection & Audit unit	Bdl Governor	19/300	26-Feb-15	Letter regarding an accident in the parking lot which is caused by the negligence of the cleaning staff where the manager of the cleaning company paid USD 150 to compensate for the damages caused

²⁶⁴ Undated document, provided in Word format. This exhibit was provided as part of information reviewed.

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File name	English title	Sender	Receiver	Reference number	Date	Description
ايداع نقدي في حساب موظف	Cash deposit in Employee Account	Inspection & Audit unit	BdL Governor	9/153	10-Mar-15	Letter regarding the cash deposit by an employee into his account in Jounieh on 28 February 2015 to cover the interest difference
اعادة شك دون رصيد	Cheque bounces due to no balance	Inspection & Audit unit	BdL Governor	78/341	08-Apr-15	Letter regarding cheque bounce due to no balance on 28 January 2015
حادث انفجار قسطل في مطابخ الحريق في مبنى E	Fire System Alarm & Alert Incident	Inspection & Audit unit	BdL Governor	9/243	27-May-15	Letter regarding flooding incident in Building E on 3 April 2015
تأجير شقة في المنطقة المنصورية	Renting an apartment in Al Mansourieh area	Inspection & Audit unit	BdL Governor	9/259	17-Jun-15	Letter regarding an employee renting a section of her owned property without notifying BdL which defies the BdL articles
عدم تقيد موظفة بدوام العمل	Non-adherence to the work timings and repetitive leaving during working hours	Inspection & Audit unit	BdL Governor	9/261	18-Jun-15	Letter regarding the non-adherence of one employee to the work timings and the repetitive absence for long periods during working hours
حادثة فقدان شك	Cheque lost incident	Inspection & Audit unit	BdL Governor	9/281	07-Jul-15	Letter regarding a cheque lost due to miscommunication between the departments and lack of sufficient employees to perform the daily tasks. An assessment of the number of employees required at the relevant departments must be carried out.
حادثة سحب شكات لدى فرع زحلة	Cheque withdrawal incident at the Zahle branch	Inspection & Audit unit	BdL Governor	9/293	20-Jul-15	Letter regarding the cash cheque issued by the municipality where the wrong cheque books were delivered to the wrong entities hence there was an issue in the accounts but was then later rectified by the parties. The Inspection & Audit unit has prepared an incident report providing details and assigning accountability amongst the (redacted) parties
مخالفة جديدة لموظف	Letter from the Central Security and Control Unit	Inspection & Audit unit	BdL Governor	9/1/49	26-Jan-16	Letter regarding the absence of the Head of the Central Security and Control Unit along with their Assistant Head/Deputy and Secretary at year end. It appears that leaves were requested through telephone conversations with the Unit's Secretary rather than by any formal/official procedure.
خطأ في تنفيذ عمليات ايداع شكات في فرع طرابلس بسبب خطأ في طباعة دفتر الشكات	Error in executing cheque deposits in Tripoli branch due to an error in printing of the cheque books	Inspection & Audit unit	BdL Governor	9/82	03-Feb-16	Letter regarding a printing error of cheque books for the commercial banks. This error has created an accounting error as one bank had the details of another bank on the cheque. The issue was then rectified, and the appropriate accounting treatment was implemented.
استئجار مولد لزوم فرع النبطية	Renting of a generator for Al Nabatieh branch	Inspection & Audit unit	BdL Governor	71/67	21-Apr-16	Letter regarding the renting of a generator from 8 August 2015 till 17 November 2015 at Nabatieh branch where the renting cost exceeded the cost of purchasing a new generator.
تجارة أجهزة الكترونية وهواتف (2)	Trading of telephones and electronic devices (2)	Inspection & Audit unit	BdL Governor	9/1/2939	05-May-16	Letter regarding one of the employees being a partner in an electronic device trading company and there is no legal statute that forbids the employee in engaging in such matters

File name	English title	Sender	Receiver	Reference number	Date	Description
طباعة دفاتر شكاك (2)	Cheque book printing (2)	Inspection & Audit unit	BdL Governor	9/184	06-May-16	Letter regarding the operations of cheque books printing and that the Cash Operations Department did not visit the printing company throughout the engagement period therefore having no Control on its operations. The printing company does print a carbon copy of the cheque book without notifying BdL and there are 10,000 sheets of printing paper that appear to be missing
تجارة أجهزة الكترونية وهواتف	Trading of telephones and electronic devices	Inspection & Audit unit	BdL Governor	9/1/3126	11-May-16	Letter regarding one of the employees being a partner with an electronic device trading company and upon further inspection it was discovered that the employee is managing the company's finances which conflicts with Management Memorandum number 2065 dated 20 February 2012 based on article 49 of the Employee Conduct
عدم تنفيذ تعليمات رئيس الوحدة	Non-implementation of the Head of Central Security and Control Unit instructions	Inspection & Audit unit	BdL Governor	33/169	10-Jun-16	Letter regarding the non-implementation of the instructions of the Head of Central Security and Control Unit regarding taking inventory of the Banks' keys by the Head of the unit by proxy.
حادثة الأموال المزورة في صور	Report on forged money notes in Sur branch	Inspection & Audit unit	BdL Governor	9/346	11-Nov-16	Letter regarding the finding of 63 notes of LBP 100,000 that are forged in the Sur branch. A full report was drafted providing details of the incident and assigning accountability.
ضبط عملية تلاعب بشكاك	Uncovering a cheque manipulation process	Inspection & Audit unit	BdL Governor	9/1/816	21-Dec-16	Letter regarding the manipulated cheque which sufficed all the legal requirements and upon discussion with the legal team it is clear that BdL is not liable for the cheque as it suffices all the legal requirements
الدوام في فرع بكفيا	Work timings at Bikfia branch	Inspection & Audit unit	BdL Governor	9/386	30-Jun-17	Letter regarding the early departure of employees between 1 and 1:30 pm on the days between 30 May 2017 till 22 June 2017
حادثة على صناديق فرع زحلة	Incident on the Zahleh branch counters/safe	Inspection & Audit unit	BdL Governor	9/502	13-Sep-17	Letter regarding the update of Management Memorandum and improvement of processes in the Safe unit and Counting department as major loopholes were identified in the current processes
الغاء وتصحيح فواتير بعد إقفال اليومية المحاسبية	Cancelling and rectifying invoices after the closing of the accounting journal	Inspection & Audit unit	BdL Governor	9/35	11-Jan-18	Letter regarding how most departments is able to cancel and rectify invoices after the closing of the accounting journal without notifying the Inspection & Audit Unit. Inspection & Audit Unit requests BdL Governor office to inform the IT department to provide the privilege of cancelling and rectifying invoices only to the Inspection & Audit Unit in accordance with Management Memorandum number 1438 dated 30 April 1998.
فقدان أغطية خراطيم	Missing wall lamps and hose covers	Inspection & Audit unit	BdL Governor	9/	30-Jan-18	Letter regarding missing wall lamps and hose covers as they were not yet delivered to the facilities department

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File name	English title	Sender	Receiver	Reference number	Date	Description
التوقف الكلي لنظام المراقبة في المصرف	Complete stop of the surveillance system at the bank	Inspection & Audit unit	BdL Governor	9/131	31-Jan-18	Letter regarding the stoppage of CCTV system between 7 am and 8 pm due to a software bug on 2 January 2018. The issue reoccurred over the next couple of days with partial stoppage throughout the days. An operating system upgrade/patch was installed, and the issue was rectified.
حادثة في فرع بكفيا	Incident on the receipt counter/safe at Bekfia branch	Inspection & Audit unit	BdL Governor	9/203	06-Mar-18	Letter regarding one of the employees fixing a sandwich heater machine in the receipt counter/safe using tools from his desk. This was noticed during the daily inspection of the surveillance footage by the Inspection & Audit Unit Agent at the branch and the official visit of another Inspection & Audit Unit Agent to the branch.
تحقيق في حادثة موظف	Incident	Inspection & Audit unit	BdL Governor	9/282	03-May-18	Letter regarding the investigation of (redacted), assistant manager in IT department, depositing cash into his account to cover cheques without enough balance. The transactions relate to loans provided to the employee upon his request
تقرير عن حادثة فرع جونيه	Violation of public money deposit process - Jounieh branch incident	Inspection & Audit unit	BdL Governor	9/312	31-May-18	Letter regarding the periodic review of BdL branches in terms of departments, processes and operations. It was highlighted to the Inspection & Audit Unit that no mistakes were noted in deposits during 2016 and one mistake in 2017 but in fact the mistakes were not being recorded.
مخالفة المذكرة الإدارية 1848	Violation of Management Memorandum number 1848	Inspection & Audit unit	BdL Governor	9/350	11-Jul-18	Letter regarding the violation of Memorandum number 1848 relating to non-smoking
مخالفة مذكرة 1848	Violation of Memorandum number 1848	Inspection & Audit unit	BdL Governor	9/407	24-Sep-18	Letter regarding the violation of Memorandum number 1848 relating to non-smoking
تعريض المبنى الرئيسي للخطر	Exposing the main branch to risk/danger	Inspection & Audit unit	BdL Governor	77/245	02-Oct-18	Letter regarding storage room B2-28 in Bloc A building containing equipment for maintenance.
تعريض المصرف لأقصى درجات المخاطر	Exposing the bank to the maximum risk levels	Inspection & Audit unit	BdL Governor	77/239	02-Oct-18	Letter regarding the lack of surveillance equipment on the buildings next to the BdL main building and various access areas in the walls surrounding BdL main building.
الاستعانة بمسؤول وحدة التدقيق في فرع طرابلس	Utilizing the assistance of the Inspection & Audit Unit agent in Tripoli branch	Inspection & Audit unit	BdL Governor	9/440	25-Oct-18	Letter regarding the utilization of the Inspection & Audit Unit Agent in Tripoli branch to manage the branch instead of the Tripoli branch manager who has taken leave during 15 October 2018 till 20 October 2018 without referring back to the Inspection & Audit Unit. The responsibilities assigned to the Agent by the Inspection & Audit Unit conflict with the responsibilities of managing the branch. The issue occurred again in the week of 25 October 2018.

File name	English title	Sender	Receiver	Reference number	Date	Description
جرم معلوماتي تخريبي	IT sabotage crime	Inspection & Audit unit	BdL Governor	9/261 repeated	03-Jun-19	Letter regarding the assistant manager of Inspection & Audit department who was hired in February 2011 having the full administrative and IT authority over the Audit Command Language (ACL) system as a Local Administrator and having Full Remote Access to BDLACL servers and CA - agents' workstations which enabled him to delete, change and add any file, program or database.
التجاوزات والمخالفات في إنشاء غرفة كهرباء في بكفيا	Violations in constructing Electricity room in Bekfia branch	Inspection & Audit unit	BdL Governor	9/306	06-Nov-19	Letter regarding the violations in constructing the main electrical room which is not in line with the pre-approved instructions. This was done by the branch manager in Bekfia branch without notifying the facilities department
طلب توجيه كتب تنبيه	Renting of BDL mortgaged property	Inspection & Audit unit	BdL Governor	9/110	13-Mar- 20	Letter regarding the renting of BDL mortgaged property by two employees as the mortgage was not provided on the property to be rented but rather it was a residential mortgage.
حادثة تسريب معلومات سرية من مصرف لبنان	Confidential information leak from BDL incident	Inspection & Audit unit	BdL Governor	9/119	15-Apr-20	Letter regarding a confidential information leak from the computer room in the IT department at BdL and there are two (redacted) employees suspected of the leak.
التشدد في تطبيق الضوابط للحد من مخاطر العامل البشري على المعلومات	Strict enforcement of controls to mitigate Human risks on information	Inspection & Audit unit	BdL Governor	9/146	03-Jun-20	Letter regarding the leak of information from the IT department without identifying how it was leaked. The Inspection & Audit Unit urges stricter enforcement of controls to mitigate against disgruntled user risk.
إيداع شك مصرفي في حساب مدير فرع وسحبه نقدًا	Deposit of banker's cheque in the Aley branch manager account and withdrawing the amount in cash	Inspection & Audit unit	BdL Governor	9/241	26-Oct-20	Letter regarding the deposit of cheque issued by the National Social Security Fund dated 16 October 2020 into the account of the Aley branch manager and performing a cash withdrawal of the same amount on the same date.
الموظفين المعنيين في حادثة عملة مزورة في صور	- Incident of forged LBP 10,000 note at Sur branch - Names of employees involved in the forged incident at Sur branch	Inspection & Audit unit	BdL Governor	9/204	- 6-Mar- 18 - 15-Mar- 18	- Letter regarding the incident of forged LBP 10,000 note when a customer has exchanged BPL 20,000 note for change with one of the employees. The forged note was confiscated - The employees involved in the incident are (redacted names for three employees): 1. Head of Department - personnel who provided the forged note 2. Head of Cashiers - personnel who identified the forged note 3. Commissionaire - personnel who received the forged note and did not confiscate it

12.6.5 The internal inspection and audit function should ensure periodic reporting to governing body of the Central Bank on significant risk exposures and control weaknesses. This should include root-cause analysis and a summary of recommended remedial actions, as well as progress updates on the status of the

annual audit plan, and the implementation of recommendations. The function should also maintain a formal follow-up process for monitoring the resolution of audit findings and ensuring that the remedial actions have been effectively implemented²⁶⁵.

12.6.6 Regarding the reporting and monitoring activities of the department, we have not been provided with any additional documentation.

12.6.7 However, based on our research, BdL has required from banks and financial institutions the following:

- i) Banks and financial institutions shall establish the IA and internal control framework in their respective organisation²⁶⁶ where articles 3 and 4 impose to have an internal control and IA departments.
- ii) Banks must establish an independent audit committee²⁶⁷, and this committee shall review the internal control framework, conduct IAs on a periodic basis or ad-hoc when needed; and conduct inspection missions²⁶⁸.

12.6.8 Quality assurance is another aspect needed to maintain adherence of the IA function to international standards, including through independent external quality assessments every five years and action plans to address areas for improvement. We have not been provided with any quality assurance information.

12.7 Absence of scrutiny from external stakeholders and commissions

i) Accountability and scrutiny from external stakeholders

12.7.1 Since an independent central bank is not an elected body yet has sweeping economic powers, in a democratic society it should be accountable to lawmakers and public. On the one hand, central banks need independence, since the best

²⁶⁵ Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>

²⁶⁶ Basic circular no.77, basic decision no. 7737 dated on December 15th, 2000

²⁶⁷ Article 1 of basic circular no.118 of basic decision no. 9956 dated July 16th, 2008

²⁶⁸ Article 4 of basic circular no.118 of basic decision no. 9956 dated July 16th, 2008

policy for the economy may not be aligned with the political goals of governments²⁶⁹.

12.7.2 On the other hand, in fulfilling their mandate, central banks must be accountable to society through their elected representatives.

Table 12.25 Constitutional provisions regarding central banks' accountability²⁷⁰

	Article of constitution	Stipulated accountability partner	Relevant provisions in the constitution or an international treaty
Euro area	Article 284(3) (TFEU)	EU Parliament and EU Council	The ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis (Article 284(3)).
Poland	Article 227(6)	Parliament	The Council for Monetary Policy shall annually formulate the aims of monetary policy and present them to the Sejm. Within 5 months following the end of the fiscal year, the Council for Monetary Policy shall submit to the Sejm a report on the achievement of the purposes of monetary policy (Article 227(6)).
Switzerland	Article 99	Confederation	The Confederation is responsible for money and currency, and it has the exclusive right to issue coins and banknotes. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it shall be administered with the co-operation and under the supervision of the Confederation (Article 99).

12.7.3 The CMC establishes rules that constitutes BdL's accountability framework:

- i) The Ministry of Finance may request the Governor to summon the Central Council²⁷¹.
- ii) The Government Commissioner²⁷² shall be kept informed of the CC resolutions and may require the Governor to suspend any resolution

²⁶⁹ 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>

²⁷⁰ 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>

²⁷¹ Article 29 of CMC

²⁷² Detailed in the Government Commissioner section

that he deems contrary to the law and regulations, referring the matter to the Minister of Finance.²⁷³

- iii) The Government Commissioner shall periodically inform the Minister of Finance of the supervision he has carried out²⁷⁴.
- iv) BdL shall use means as it may deem capable of ensuring exchange stability, and more specifically operate on the open market, following agreement with the Minister of Finance²⁷⁵.
- v) Before June 30 of every year, the Governor shall table before the Minister of Finance the balance sheet and the Profit and Loss Account of the previous fiscal year as well as a report on the Banks operations in the course of the said year²⁷⁶.

12.7.4 We have not been able to review the above, with the exception of the below:

- i) A full section below is dedicated to the Government Commissioner role and the analysis we have conducted as part of our audit.
- ii) Communication between BdL and any other government body was not part of our scope.
- iii) Communication relating to financial position of BdL is disclosed in the Forensic sections of this report.

12.7.5 We have not been informed of any other accountability arrangements between BdL and any other public institution. Although the CMC set an accountability framework, we have not seen any instance where challenge has been triggered.

ii) External Commissions

12.7.6 There are four external commissions, all chaired or supervised by the Governor.

²⁷³ Article 43 of CMC

²⁷⁴ Article 45 of CMC

²⁷⁵ Article 75 of CMC

²⁷⁶ Article 117 of CMC

12.7.7 We have not been provided with the minutes of those committees as these are external to BDL.

iii) Higher banking commission

12.7.8 The Higher Banking Commission (“HBC”)²⁷⁷ is a special quasi-judicial body forming part of the BdL. It functions as a tribunal, with power to impose administrative sanctions (based on reports presented by the BCCL to the Governor) should it determine that a bank has violated its by-laws, the applicable provisions of the CMC and/or measures prescribed by BdL or has submitted incomplete or inaccurate reports or information to the BCCL. It is chaired by the Governor of the BdL and consists of a Vice-Governor selected by the Central Council, the MoF Director General, a high-ranking judge (with at least a 10-year experience, approved by the Higher Judicial Council and appointed by decree), the member of the BCCL proposed by the Association of Banks and the Chairman of the National Deposit Guarantee Institution (“NDGI”).

12.7.9 According to BDL’s website²⁷⁸, the HBC (the Commission) was established at BdL in 1967, pursuant to Article 10 of Law No 28/67.

12.7.10 The main mission of the HBC is to:

- i) Impose administrative sanctions on any bank²⁷⁹, leasing company²⁸⁰, financial institution or financial intermediation institution²⁸¹ that:
 - a) violates its by-laws.
 - b) violates the provisions of the Code of Money and Credit;
 - c) violates the measures prescribed by BDL;
 - d) submits incomplete or inaccurate reports or information.
- ii) Impose administrative sanctions on any exchange institution²⁸² that:
 - a) violates its by-laws;
 - b) violates the provisions of the Code of Commerce;

²⁷⁷ Decision 50 of July 15th, 1983. This exhibit was provided as part of information reviewed.

²⁷⁸ www.BdL.gov.lb

²⁷⁹ Article 208 CMC

²⁸⁰ Article 29 of Law No 160 of December 27, 1999, on Regulating Leasing Operations

²⁸¹ Article 23 of Law No 234 of June 10, 2000, on Regulating the Financial Intermediation Profession

²⁸² Article 18 of Law No 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon

- c) violates the provisions of Law 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon;
- d) violates the recommendations or measures prescribed by BdL;
- e) submits incomplete or inaccurate statements or information;
- f) undertake any activity that damages the reputation of Lebanon in the field of tourism or finance.

12.7.11 In addition, the Commission approves the by-laws and employees' statutes of the BCCL²⁸³.

12.7.12 The HBC is composed of:

- i) The Governor of BdL, as Chairman;
- ii) A Vice-Governor selected by the Central Council of BdL;
- iii) The Director General of the Ministry of Finance;
- iv) A high-ranking judge, with a 10-year experience at least, approved by the Higher Judicial Council and appointed by Decree;
- v) A member of the Banking Control Commission, nominated by the Association of Banks in Lebanon;
- vi) The Chairman of the NDGI.

12.7.13 The HBC's incumbent members are:

- i) Governor of the BdL;
- ii) Third Vice-Governor of the BdL;
- iii) Director General of the Ministry of Finance;
- iv) President of the Court of Appeals Division Eight;
- v) Member of the Banking Control Commission;
- vi) Chairman of NDGI.

12.7.14 The HBC meets upon the request of its Chairman or two of its members. The legal quorum is reached with the attendance of four members, and decisions are taken by a majority of three of the attending votes. In case of equality of votes, the Chairman shall have a casting vote²⁸⁴.

²⁸³ Article 8 of Law No. 28/67 of May 9, 1967

²⁸⁴ Art 10 of Law No 28/67 of May 9,1967

12.7.15 The procedures to be followed before the HBC are as follows:

- i) The Governor of BdL shall: (a) summon the Chairman, or in case of impediment, the manager of the concerned institution²⁸⁵, either directly or through the Central Bank's employees in charge of serving the notification; (b) give the concerned Chairman or manager a copy of the Banking Control Commission's report forwarded to the HBC; and (c) set a date on which the Chairman or manager must appear before the HBC²⁸⁶.
- ii) The Chairman or his duly mandated delegate may submit to the BdL Governor, in his capacity as Chairman of the HBC, written comments on the Banking Control Commission's report, within three days from reception of the report. The Governor may, with a justified decision, extend this time limit for three additional days²⁸⁷.
- iii) If the Chairman or manager does not appear before the HBC on the set date, the HBC may decide to postpone the final decision and grant an additional time limit, or to settle the case in the absence of the Chairman or manager or without receiving their reply²⁸⁸.
- iv) The minutes of each meeting held by the HBC are recorded in a special register and signed by its Chairman and members²⁸⁹.

12.7.16 The decision of the HBC must be justified. When a decision concerns the appointment of a temporary manager or a supervisor, the Commission shall specify the powers vested in each of them²⁹⁰.

12.7.17 Decisions taken by the Commission regarding the appointment of a temporary manager or delisting of a bank must be published²⁹¹.

²⁸⁵ Bank, financial institution, financial intermediation institution, exchange institution or leasing company

²⁸⁶ Article 1 of Decree No.7977 of August 16, 1967

²⁸⁷ Article 2 of Decree No.7977 of August 16, 1967

²⁸⁸ Article 3 of Decree No.7977 of August 16, 1967

²⁸⁹ Article 6 of Decree Nb.7977 of August 16, 1967

²⁹⁰ Article 4 of the decree Nb.7977 of August 16, 1967

²⁹¹ Article 210 CMC

- 12.7.18 The BdL Governor shall notify the Commission's decision to the contravening institution²⁹².
- 12.7.19 The decisions of the HBC shall not be subjected to any ordinary or extraordinary form of administrative or judicial review²⁹³.
- 12.7.20 The HBC may impose the following administrative sanctions:
- a. Issue a warning;
 - b. Prohibit specific operations or imposing other limitations or restrictions on professional activities;
 - c. Appoint a controller;
 - d. Delisting;
 - e. Reduce or suspend credit facilities granted by the Central Bank;
 - f. Prohibit the owner of the institution or any of the partners from carrying out their professional activities, either temporarily or in a permanent manner
- a) Sanctions (a), (b), (c), (d) and (e) are applied against banks and financial institutions²⁹⁴.
 - b) Sanctions (a), (b), (c) and (d) are applied against financial intermediation institutions²⁹⁵ and leasing companies²⁹⁶.
 - c) Sanctions (a), (b), (d) and (f) are applied against exchange institutions²⁹⁷.
- 12.7.21 The administrative sanction of issuing a warning is imposed by decision of the Governor of BdL, while the other sanctions are imposed by decision of the HBC.

iv) Banking Control Commission of Lebanon

- 12.7.22 The Banking Control Commission of Lebanon (BCCL)²⁹⁸ was established in 1967 by Law N^o. 28/67, as an administratively independent body to replace the banking

²⁹² Article 5 of Decree No.7977 of August 16, 1967

²⁹³ Article 209 CMC

²⁹⁴ Article 208 of CMC

²⁹⁵ Article 23 of Law No 234 of June 10, 2000, on Regulating the Financial Intermediation Profession

²⁹⁶ Article 29-1 of Law No 160 of December 27, 1999

²⁹⁷ Article 19-1 of Law No 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon

²⁹⁸ www.bccl.gov.lb

control department of BdL. The commission is composed of five members who are appointed by the Council of Ministers for a five-year term.

- 12.7.23 The BCCL's function is to supervise banks, financial institutions, exchange institutions and comptoirs. It acts as the prudential supervisor for banks and other regulated entities²⁹⁹. The BCCL performs its supervisory functions as an independent body, but in close coordination with the Governor of the Central Bank (who has the legal prerogative to ask for all reports of the BCCL)³⁰⁰.
- 12.7.24 The BCCL has a separate budget approved by the HBC and funded by the Central Bank. A board member of the Banking Control Commission cannot be removed from office, except for physical incapacitation or gross negligence of duties.
- 12.7.25 The BCCL performs its duties mainly through periodic on-site and off-site examinations of the entities it supervises by its highly qualified (and continuously trained) examiners.
- 12.7.26 The BCCL evaluates financial soundness of regulated entities. This is done through on-site and off-site reviews. The reviews include the analysis of financial statements and monitoring the implementation by these institutions of:
- a. The provisions of the Lebanese Code of Money and Credit;
 - b. Basel committee requirements, especially the Core Principles for Effective Banking Supervision;
 - c. The Central Bank's regulations;
 - d. The BCCL's circulars and instructions;
 - e. International Accounting Standards;
 - f. Corporate Governance.
- 12.7.27 Furthermore, the BCCL can impose corrective and remedial measures on individual banking institutions if found necessary.
- 12.7.28 The BCCL supervises the following institutions³⁰¹:

²⁹⁹ White Book, July 2017 - Payments and securities settlement systems in Lebanon

³⁰⁰ www.BdL.gov.lb

³⁰¹ www.bcci.gov.lb

- i) Banks (63);
- ii) Financial Institutions (42);
- iii) Exchange Institutions (301);
- iv) Comptoirs (21).

12.7.29 We have been provided with a BdL self-assessment document³⁰², from which we understand that the Governors Vice-Governors and the head of the Banking Control Committee meet with Banks' representatives monthly and discuss with them major issues related to the safety and efficiency of the banking sector. However, we have not been provided with those minutes.

12.7.30 We have reviewed the minutes of the BCCL meetings³⁰³ and below is a summary. The meetings will usually impose fines on non-compliant institutions with prudential rules. Other than this, the minutes, as taken by the secretary, do not show any discussion around prudential supervision.

Table 12.26 Extract of summary of BCCL meeting minutes³⁰⁴

Report Date	Reference no.	Content Summary
8-Feb-16	110/13B	Extent of compliance with percentage of net funds available in foreign currencies as at 30 September 2015 (BdL Circular 72).
11-Feb-16	120/13B	Banks violating BdL circular no. 62 during October 2015. Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
28-Apr-16	386/13B	Banks violating BdL circular no. 62 during January 2016. Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
11-Jul-16	608/13B	Banks not complying with maximum limits allowed under article 152 of Money and Credit Law as at 31 March 2016. Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
11-Jul-16	609/13B	Commercial banks not complying with the percentage of medium- and long-term loans and contributions in LBP to liabilities in LBP as at 31 March 2016 (BdL Circular no. 22). Includes list of banks fined.

³⁰² Document provided undated. This exhibit was provided as part of information reviewed.

³⁰³ We have not been provided with the members list. This exhibit was provided as part of information reviewed.

³⁰⁴ This exhibit was provided as part of information reviewed.

Report Date	Reference no.	Content Summary
11-Jul-16	610/13B	Banks not complying with maximum limit of banking facilities as of 31 March 2016 (BdL Circular 48). Includes list of banks fined and list of banks with waivers and special circumstances.
22-Aug-16	763/13B	Some electronic money transfer companies not providing BdL with monthly required reports (CET-1) as electronic money transfers are no longer being conducted.
24-Sep-16	841/13B	Recording provisions and increasing solvency ratios in accordance with decision 12290 subject to circular 428 dated 25 June 2016 to comply with requirements of IFRS 9 that comes in effect as at 1 January 2018.
26-Oct-16	988/13B	Bank not complying with maximum limit allowed under decision 11717 dated 8 March 2014 attached to BdL circular 132 as at 31 July 2016. Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
13-Jul-17	612/13B	Bank violations during March and April 2017 of decision no. 7274 dated 15 April 1999 in relation to non-resident sectors subject to BdL circular 62. Includes list of banks fined, remarks and recommendations by committee.
12-Jan-18	52/13B	Banks violating the maximum limit allowed for daily clearing centres for December 2017. Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
20-Jan-18	66/13B	Letter from BCCL to the Governor suggesting not allocating unspecified banking risk reserve in line with decision 7129 dated 15 October 1998 (BdL Circular 50) to assist with the requirements of IFRS 9.

v) Special Investigation Commission

12.7.31 The Special Investigation Commission (SIC) is a multi-function financial intelligence unit³⁰⁵ (FIU) with judicial status. It is the centre piece of Lebanon's AML/CFT³⁰⁶ regime, a platform for international cooperation and plays a vital role in safeguarding concerned sectors from illicit proceeds.

12.7.32 The SIC's tasks include receiving and analyzing suspicious transaction reports (STRs), conducting financial investigations, lifting banking secrecy, freezing accounts and/or transactions and forwarding them to concerned judicial authorities.

³⁰⁵ www.sic.gov.lb

³⁰⁶ AML/CFT refers to anti-money laundering and counter-terrorist financing

12.7.33 With respect to terrorism and the financing of terrorism, the SIC is also empowered to prevent the use of movable or immovable assets. In addition to sharing ML/TF³⁰⁷ intelligence with counterparts and coordinating with foreign/local competent authorities on requests of assistance (ROAs), the SIC also proposes AML/CFT regulations and issues regulations and recommendations to concerned parties.

12.7.34 AML/CFT supervision via risk-based compliance examinations that cover banks and other reporting entities to ensure proper implementation of prevailing regulations is also among its tasks.

12.7.35 The SIC is composed of³⁰⁸:

- i) Chairman: The Governor of BdL, or the Vice-Governor designated by him;
- ii) The Judge appointed to the HBC, or his alternate judge;
- iii) The President of the BCCL, or the member of the Commission designated by him;
- iv) The professional appointed by the Council of Ministers, or his alternate.

12.7.36 Article 6 of Law No. 44 of November 24, 2015³⁰⁹ establishes “the Special Investigation Commission” or “the Commission” as an independent legal entity with judicial status at BdL, which shall discharge its functions without being subject to BdL’s authority.

12.7.37 The mission of the SIC, as per Law No. 44, is to:

- i) Receive STRs and requests of assistance; to investigate operations that are suspected to be money-laundering or terrorism financing offences; to decide on the seriousness of evidence and circumstantial evidence related to the commission of any such offence(s); to take in this regard

³⁰⁷ ML/FT refers to money laundering and terrorist financing

³⁰⁸ Special Investigation Commission 2020 annual report, <https://www.sic.gov.lb/en/publications/10>

³⁰⁹ The Law on Fighting Money Laundering and Terrorism Financing is publicly available in <https://www.sic.gov.lb/sites/default/files/laws-regulations>

the adequate decision, particularly the precautionary and temporary freezing of the suspicious accounts and/or transactions, for a maximum period of one year renewable once for six months concerning foreign requests of assistance, and for a maximum period of six months renewable once every three months concerning local STRs and requests of assistance.

- ii) Ensure compliance by the parties referred to in Articles 4 and 5 of this law with the obligations stipulated in this Law and in the regulations issued in relation thereto, except for lawyers, certified accountants, and notaries, without prejudice to the provisions of Paragraph 2 of Article 17 of this Law.
- iii) Collect and retain the information received from the parties referred to in Articles 4 and 5 of this law, as well as the information received from Lebanese and foreign official authorities, and all other collected information, and to share such information with the Commission's counterparts, in its capacity as the competent authority and the official centre to undertake such a task.
- iv) Issue regulations on the implementation of the provisions of this Law addressed to the parties referred to in Article 5 of this law, and to issue recommendations to all concerned parties.
- v) Permanently freeze the concerned accounts and/or transactions, and/or lift the banking secrecy in favour of the competent judicial authorities and the HBC represented by its Chairman on accounts or transactions suspected to be related to money laundering or terrorism financing.
- vi) Keep suspicious accounts as traceable accounts.
- vii) Attach an encumbrance on the records and entries pertaining to movable or immovable assets, indicating that such assets are under investigation by "the Commission". The encumbrance shall be kept until doubts are erased or until a final decision in this regard is taken.